

EUROPE'S BUSINESS NEWSPAPER

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EC INDUSTRY

Car chief warns
of job losses

Page 14

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Monday July 22 1991

World News Business Summary

Huge oil spill
as tanker
breaks up off
Australia

A Greek tanker broke up and leaked 10,000-20,000 tonnes of light crude oil into the sea off the west coast of Australia, creating a spill estimated to be eight miles long and 1,000 yards wide. The crew were rescued after a fire broke out on board. Page 4

Talks on Iraq embargo
Senior UN representatives will today consider whether to allow a temporary suspension of the embargo on Iraqi oil sales in order to finance imports of food and medicine. Page 14

Minister may resign
South Africa's law and order minister Adrian Vlok said he is considering resigning over covert police payments to the Inkatha Freedom Party, main rivals of the African National Congress. Opposition call, page 4

Cresson's rating slumps
The declining popularity of French prime minister Edith Cresson was confirmed in a weekend poll giving her one of the worst results of any French premier in recent history. Page 2

Bush faces China test
President Bush faces a stiff challenge to his China policy, with Senate Democrats seeking to attach conditions to the renewal of "most favoured nation" trade status. Page 4

Croat recruits killed
A suspected Serbian gunman killed three police recruits in eastern Croatia hours before president Franjo Tudjman visited the region to discuss ethnic violence in his republic. Crisis summit, page 2

Afghan peace scorned
Mujahideen guerrillas agreed to press for a military victory in the Afghan war, virtually dismissing a UN peace plan for a ceasefire.

Umbrella murder plea
Sofia will ask Moscow to extradite a Bulgarian interior minister general linked to the "pot-smoking" murder of exiled dissident Georgi Markov in London 13 years ago.

Salvador power struggle
El Salvador's governing Arena party faces a bitter power struggle following an announcement that its founder, Roberto D'Aubuisson, has terminal cancer.

Fire on French carrier
Fire broke out in the aircraft hangar of the Clemenceau, one of France's two aircraft carriers, in Toulon. Nobody was seriously hurt.

Labour chief accused
Bob Hogg, national secretary of Australia's ruling Labour party, has been charged with breaching electoral laws by failing to disclose thousands of small donations.

Somali ceasefire deal
Six political groups from Somalia announced agreement in Djibouti on a ceasefire in their war-torn country. They named Ali Mahdi Mohamed to lead an interim government.

Executions in Canton
Nineteen people were executed in the south China city of Canton for robbery and murder.

Prize catch
Fisherman René Poullet caught a wrecked Mirage aircraft in his nets when trawling off the French Mediterranean port of Sète. The fighter crashed 11 years ago.

Australian wins Open
Australian golfer Ian Baker-Finch clinched the first big title of his career when he won the British Open at Royal Birkdale by two shots over his compatriot, Mike Harwood.

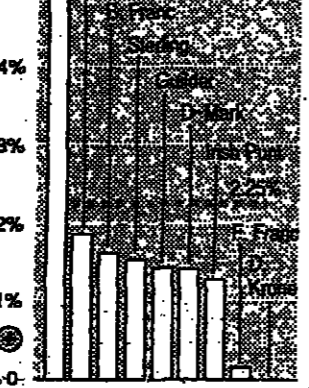
European car
chief warns
of massive
job losses

The European Community faces the loss of "several hundred thousand" jobs through European motor industry restructuring to fend off the Japanese, according to Raymond Levy, president of the European car industry lobby group Acea and chairman of Renault, the French state-owned car group. Page 14

MULTINATIONAL companies' foreign investments have been growing three times faster than world trade since 1983 and promise to be the crucial factor fuelling world economic growth in the 1990s, according to a study by the United Nations Centre on Transnational Corporations (CTC). Page 14

EUROPEAN MONETARY SYSTEM - Members of the exchange rate mechanism rose sharply against the dollar and Japanese yen, dragged up by speculation about higher German interest rates. The D-Mark showed little movement within the ERM however, while sterling traded steadily in the top half of the system. The French franc remained second weakest, on speculation that encouraging inflationary trends will result in lower French interest rates. Currencies, Page 25

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The chart shows the member currencies of the exchange rate mechanism measured against the D-Mark. The D-Mark is the base currency at 0%. The French Franc is at approximately 1.5%, the Italian Lira at 1.2%, the Spanish Peseta at 1.0%, and the British Pound at 0.8%.

MOODY'S, one of the large Wall Street rating agencies, is to downgrade the ratings of six big US insurance companies. They are John Hancock Mutual Life Insurance, Massachusetts Mutual, Principal Mutual, Mutual Life Insurance Company of New York, New England Mutual Life Insurance and Travelers Insurance. Page 15

TACE: Thermo Electron, a US environmental group, will this week decide whether to increase its offer for the environmental control equipment maker after the claim by Cambridge Electronic Industries to have won the bid battle. Page 16

UK ECONOMY: The Confederation of British Industry/Financial Times survey of the distributive trades shows that there was no further worsening in retail sales volumes between May and June, while wholesale trade last month fell at its slowest rate this year. Page 14; Details, Page 6

BANCO ESPANOL de Credito (Banco), one of Spain's largest commercial banks, has reported first half pre-tax profits in its financial group of Ptas4.7bn (\$225m), down 38 per cent on the first six months of 1990. Page 17

Bank presses
Abu Dhabi on
BCCI wind-up

By Richard Waters in London

THE Bank of England was trying last night to persuade the majority shareholder of Bank of Credit and Commerce International, Sheikh Zayed bin Sultan al-Nahyan, ruler of Abu Dhabi, to agree to a formal winding up of the bank, as fresh claims emerged that the authorities had acted too hastily when they closed BCCI.

The bank has indicated its intention to oppose the winding up petition, which will be heard in the High Court in London today. Four law firms acting for depositors of the bank are expected to oppose the winding up order as well.

The Bank has based its case for acting against BCCI on an unpublished report from Price Waterhouse, the bank's auditors. The report pointed to significant new fraud which left it with no option but to close BCCI, the Bank has said.

However, three people who have read the report said yesterday that it contained no evidence of new frauds carried out at the bank since last October.

The three people, who declined to be named but who have read the report independently of each other, said that it revealed substantial past fraud at BCCI, and that much of the evidence for this had only been discovered recently.

They disagreed with the Bank's claim, though, that it showed new frauds which demanded drastic action by the banking regulators. One said that the report showed that old frauds at the bank had had repercussions which extended beyond last October.

The banking regulators were aware of significant problems at the bank last year, but believed that the situation had been rectified. The Bank of England's claim that substantial new frauds emerged at the bank later is central to its case for closing BCCI so hurriedly, without first consulting its majority shareholder.

The Bank of England was forced last week to hand over copies of the Price Waterhouse report, carried out under section 41 of the Banking Act, to representatives of BCCI's shareholders, directors and creditors.

The winding up hearing has been brought forward to today at the request of the Bank of England, which says it wants to speed up compensation payments to depositors of BCCI's UK branches.

Sheikh Zayed's representatives argue that winding up

BANK SHUTDOWN

■ BCCI(E) may take over Pakistan branches... Page 5
■ Auditors' concern... Page 5
■ Editorial Comment, Page 12

Other opposition today will come from four law firms, including Richards Butler, which said it spoke for depositors owed \$350m by the bank. Pritchard Englefield & Tobin will appear on behalf of UK local authorities, which are believed to have had \$70m deposited in BCCI when it was closed.

Mr Mourad Fleming, of Richards Butler, said that he would be asking for a 90-day delay in the winding up hearing to give more time to consider the evidence. Lawyers representing creditors received the Price Waterhouse report only on Thursday evening.

His pointed comments came shortly before Mr James Baker, US secretary of state, arrived in Jerusalem to test Israel's reaction to the united Arab acceptance of Washington's proposals.

"I'm confident, and I hope it's not misplaced confidence, that when the secretary gets to Israel, he will find that they, like all these other countries, realise that the time for peace is at hand," Mr Bush told journalists.

He said the US was seeking to reason with Israel rather than pressing it. But Mr Bush also said he was asking for a positive response on the question of settlements.

"I had a one-on-one discussion with [prime minister Yitzhak] Shamir months ago and made clear to him that the United States policy was that there be no more settlements," he said.

Mr Baker, on the last leg of a five-nation Middle East tour, went into talks with Mr Shamir last night armed with unprecedented regional backing. Syria, Egypt, Saudi Arabia and Jordan are supporting his plan for a regional peace conference, followed by a series of negotiations on bilateral Arab-Israeli issues and the Palestinian problem. The last piece fell into place when King Hussein of Jordan gave his assent to Mr Baker in Amman yesterday afternoon.

Earlier yesterday the Israeli government rejected an offer from Egypt, supported over the weekend by the Saudis and Jordan, to end the Arab economic boycott of Israel in return for a settlement freeze. Officials said there could be no linkage between the issues. They said settlements would not come up for discussion until much later in any negotiating process.

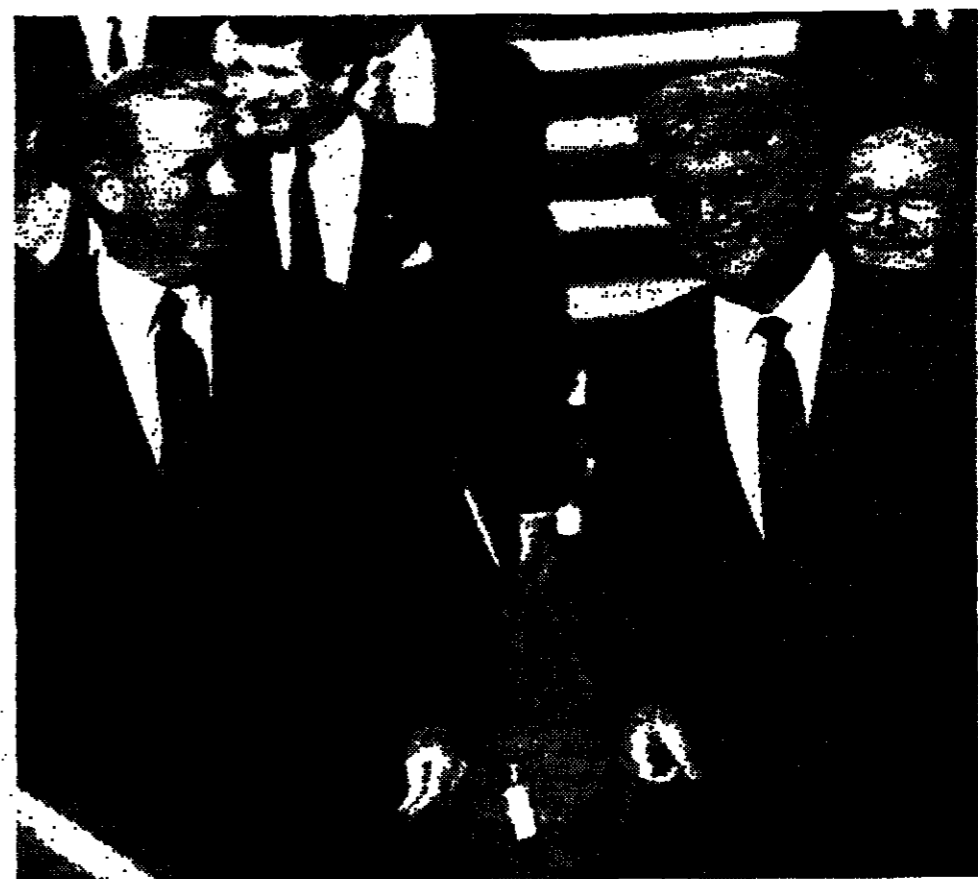
However, Mr Shamir, accompanied by Mr David Levy, the foreign minister, and Mr Moshe Arens, the defence minister, were seeking details of

the US and Arab positions from Mr Baker before making a fuller response.

The government's main suspicions concern Syria, Israel's most radical and implacable opponent, which accepted the US plan last weekend. There was also concern that the US was backing Israel into a corner.

"What is important is that direct negotiations between us and Syria are direct negotiations between us and Syria, not between us and anybody else, not even the US," said Mr Benjamin Netanyahu, the deputy foreign minister. "We certainly bless all US efforts to start a process of direct negotiations, but we expect the US to keep its obligation to be an honest broker."

The US is asking Israel to drop its objections to a minor UN role in the peace talks and to any reconvening of the regional conference after an opening session. Israel thinks both features could bias the process against it. The issue of who represents the Palestinians also remains to be overcome. Settlements stumbling block, Page 3



James Baker (left) is met at Ben Gurion airport by Israeli foreign minister David Levy

Israel told 'the time
for peace is at hand'

By Hugh Carnegie in Jerusalem

PRESIDENT George Bush yesterday stepped up the pressure on Israel to respond positively to US proposals on the Middle East. Speaking during a visit to Istanbul, Mr Bush called emphatically for a freeze on Jewish settlements in the occupied territories and said he was confident Israel would realise "the time for peace is at hand".

His pointed comments came shortly before Mr James Baker, US secretary of state, arrived in Jerusalem to test Israel's reaction to the united Arab acceptance of Washington's proposals.

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Major under pressure to testify

By Ivo Dawanay, Political Correspondent

Britain's opposition parties will today press Mr John Major, the prime minister, and Mr Norman Lamont, the chancellor, to testify publicly in the forthcoming inquiry into BCCI, following fresh allegations at the weekend.

With the independent inquiry's exact remit and chairmanship still not decided last night, Labour stepped up the pressure on Mr Major to detail what he knew of the bank's affairs both as chancellor and as prime minister.

One Cabinet minister indicated that the government had hoped its inquiry announcement on Friday would help to allay the growing clamour over the BCCI case. But he conceded yesterday: "It is clearly not going to go away."

Yesterday, Mr Roy Hattersley, Labour's deputy leader, argued that when concern about BCCI shifted in January 1990 from security matters related to terrorism to banking

issues, Mr Major, as the then chancellor, must have been informed.

"The question is how much the then chancellor bears responsibility for what has happened over the past 18 months," he said.

He called for a further statement to the Commons this week. Mr Hattersley said that Mr Lamont must explain who would chair the inquiry, what its powers and terms of reference would be.

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INTERNATIONAL NEWS

Yugoslav leaders' crisis summit today

By Laura Silber in Belgrade

YUGOSLAVIA'S leaders meet today for a crisis summit, in an attempt to curtail widespread ethnic and nationalist violence between Serbs and Croats in Croatia.

The meeting is also scheduled to consider joint efforts to staunch the country's accelerating economic collapse.

The state presidency, the country's eight-member collective leadership, and the presidents of the six Yugoslav republics will attempt to reach an accord as ethnic violence threatens to spill over into other parts of the country.

But sharp divisions remain between Serbia and its allies on one side and break-away Croatia and Slovenia on the other.

Over the weekend the leaders of Slovenia and Croatia, along with the cen-

tral republic of Bosnia-Herzegovina, agreed to set up a joint commission to overcome trade blockades. The three prime ministers said it was necessary to "connect the broken threads of economic co-operation to enable the free movement of goods and citizens across republic borders".

The weekend meeting was called by Bosnia, which fears an explosion of violence among its ethnically mixed population of Serbs, Croats and Slavic Muslims.

An awareness of the sharply deteriorating economic situation, exacerbated by mounting ethnic conflicts, hangs over the agenda of today's talks in the town of Ohrid, Macedonia. General Veljko Kadijevic, federal defence minister, said at the weekend the army had given Yugoslavia's leaders an ultimatum to reach a political solution by August 15.

However, the leaders of Serbia and Croatia, the largest republics, have only succeeded in heightening ethnic tensions in an effort to rally mass support.

Ethnic-related clashes are becoming a daily occurrence.

Three Croat policemen were killed by a lone gunman in the Croatian town of Daruvar, some 90km east of the republic's capital Zagreb, on Saturday night.

Croat police said yesterday a man was shot and killed from a moving car while sitting in his house. Police also reported a man was shot after firing on police guards at a roadblock. Both these incidents occurred in the Slavonia region of eastern Croatia. "In Slavonia bodies are rotting in the fields. We can not pick them up because of the danger

of being fired on [by Serbian guerrillas]," a Croatian minister said.

During a visit yesterday to Osijek, the regional capital of Slavonia, Mr Franjo Tudjman, Croatian president, reiterated charges that Serbia, under President Slobodan Milosevic, was backing terrorist attacks in Croatia. Mr Tudjman said Croatia would be mobilised to resist "terrorist actions" by the Chetniks, radical Serbian nationalists.

Today's summit of Yugoslav leaders follows the state presidency's order last week to the federal army to withdraw from Slovenia. The withdrawal paves the way for the alpine republic to secede. But fearing isolation in a rump Yugoslavia, Croatia has also appealed to the presidency, which is the commander in chief of the federal army, for the military to withdraw there too.

Integration pledge for Latin America

By Rebecca Doulton in Mexico City

LATIN AMERICA took a leap towards regional integration and co-operation at the weekend, during the first Ibero-American summit.

Twenty-three heads of state, including those of Spain and Portugal, attended the two-day summit in Guadalajara. In the closing declaration the 21 Latin American nations reaffirmed a commitment to international law and promised to promote human rights and eradicate the "source of misery" by the end of the century.

The leaders also proposed a common front in the drug war and the creation of a fund for indigenous people. An Ibero-American Chamber of Commerce designed to facilitate trade relations in the region was set up.

The summit's theme was integration, although President Alberto Fujimori of Peru said "it would be unrealistic for trade barriers to fall from one day to the next".

Appealing to international financial institutions to be "less myopic" in their assessment of economic advances in Latin America, Mr Fujimori appealed to creditors to recognise the long-term efforts being made by the region's fledgling democracies.

Although there was fear the summit would become a forum to pressure Mr Fidel Castro for changes in Cuba's communist regime, the final declaration emphasised respect for individual sovereignty and political plurality.

Mr José Basma, head of the Organisation of American States, said its members had to determine Cuba's readmission to the OAS. The country was expelled in 1962.

Spain and Portugal stressed their role as natural bridges for Latin America's eventual entry to the European market; Spain pledged \$7bn of low interest credits and a further \$7bn for investment schemes in the region.

Mr Gabriel García Márquez, Nobel literature laureate, urged the creation of a Latin American ecological alliance. Economy ministers from four South American countries meeting in Uruguay have agreed to work out a common set of rules to combat dumping and the sale of subsidised goods by non-members of their planned common market. Reuter reports from Montevideo.

"We decided we should take the lead in the fight against subsidies or dumping policies [and] that we should adopt uniform legislation and mechanisms to create an atmosphere in which our countries utilise the same procedures," Mr Domingo Cavallo, Argentine economy minister, said after a one-day meeting with counterparts from Uruguay, Brazil and Paraguay.

Ecological fears behind Mexican border boom

Bernd Debusmann of Reuter on the problems of industrialisation

A STRING of Mexican border towns are booming, thanks to an industrial development programme which has provoked warnings of ecological disaster and cries of greed and exploitation.

Efforts to attract foreign - mostly US and Japanese - assembly plants to the border region have been a resounding success. In the past three years alone, six new factories have opened every week and more are on the way.

Factories in Tijuana now assemble one out of every four television sets sold in the US.

On average, Japanese companies ship nine TV sets a minute across the border. More than half the 100 biggest US companies operate assembly plants in Mexico, taking advantage of cheap labour and exemption from most duties.

As a result, Tijuana, the largest city on the border, is enjoying an economic boom and so are a string of other towns along the 3,200km frontier. Wages are higher and unemployment much lower than elsewhere in Mexico.

The plants now employ nearly half a million people, a substantial number in a country with rampant unemployment. Yet the rapid industrialisation of the border region has prompted fierce criticism in both Mexico and the US.

Environmentalists say the border is being turned into a toxic waste dump. US labour leaders say American jobs are being stolen. US protectionists complain that Japan is using the border as a backdoor to the US. The arguments used in the debate are certain to shape negotiations on a free trade agreement between the US, Canada and Mexico which began last month.

Known as maquiladoras in Mexico and in-bond plants in the US, the factories operate under a system which allows them to import raw materials and components duty-free from the US. The finished products are re-exported to the US, which charges tariffs only on the value added in the assembly plant.

Conceived in the mid-1960s, the explosive growth of the maquiladora industry - 453 plants in 1974, 1,100 in 1988, and 1,936 by June 1991 - is based on the huge differential in wages between the US and Mexico.

"Straight comparisons can distort the debate," says Mr Francisco Escalante, a Tijuana business consultant. "Those who talk about exploitation make the point that someone who makes \$1.30 an hour here could get five times that much in the US. The point is that \$1.30 an hour is more than

twice the minimum wage in Mexico City."

Many maquiladora plants provide cash bonuses for regular attendance and grocery vouchers for those who work for them for more than three months. Company cafeterias often provide subsidised meals.

Experts on both sides of the border say that apart from low wages, lax pollution controls allow foreign companies to cut production costs and increase profits.

From Tijuana in the west to Matamoros in the east, environmentalists say, dozens of maquiladoras disregard rules on disposing of toxic waste and fail to follow safety standards that are taken for granted in the US.

The problem was thrown into sharp focus in January when the Mexico City government decreed the establishment of a 2,000-metre-wide "green zone" around a Dupont factory in Matamoros that produces hydrogen fluoride in case of an accident, the green zone would have required 30,000 people to abandon their homes and move elsewhere. The would-be evacuees have resisted saying the plant should move instead.

In the worst-case scenario, an accident at the plant could lead to a disaster on the scale of Bhopal," says Mr Domingo Gonzalez of the Washington-based Coalition for Justice in the Maquiladoras.

In the Indian city of Bhopal, a cloud of poisonous gas leaking from a US-owned chemical plant killed more than 2,200 people six years ago. More than 300,000 have suffered long-term health problems.

But others say not all is lost. Dr Roberto Sanchez produced one of the first detailed scientific studies on the ecological impact of maquiladoras.

In a 1987 study for the Tijuana-based Colaric delia Foundation, Mr Sanchez found that dangerous industrial waste was poisoning the ground water table with substances that can cause cancer, congenital defects and damage to the nervous system.

"Since that study, there have been some changes," Dr Sanchez says. "The people have not gone away. In fact some are worse because there are more factories."

"But there is a much better understanding of the dangers now, both among the communities and in the industry, and that gives hope for change to the better. It won't happen overnight but there are signs of improvement."



Croatian defence force members flash victory signs from a truck at the weekend. An hour later they were attacked by Serbian nationalists, but no one was hurt

Cresson's popularity still plummeting in opinion polls

By William Dawkins in Paris

FRESH evidence of the declining popularity of Mrs Edith Cresson, France's prime minister, emerged over the weekend with an opinion poll giving her the one of the worst results of any French premier in recent history.

The survey by *l'Opinion* for *Le Journal du Dimanche*, confirms that Mrs Cresson's poor public image, hit by France's simmering social problems and the impression that she is sometimes not on easy terms with members of her government, is dragging down that of President François Mitterrand.

The popularity of Mr Mitterrand, who appointed Mrs Cresson to the Matignon in May, has hit its lowest point since November 1985, six months before the Socialists lost the 1986 general election.

The proportion of voters satisfied with Mrs Cresson's performance over the past two months, from 18 per cent in June to 37 per cent in July, while her popularity rating has fallen over the same period by 7 percentage points to 18 per cent.

Such a low rating is almost unprecedented among prime ministers in the 39-year life of France's Fifth Republic, according to Mr Jean-Luc Parodi, research director for the national political sciences foundation.

Meanwhile, the proportion satisfied with Mr Mitterrand's performance has slipped by 7 points to 33 per cent from June to July, while his dissatisfaction rating has risen by 6 points to 48 per cent.

Common reasons for dissat-

isfaction cited by the 1,763 people interviewed early this month were rising unemployment and a poor quality of life. However, Mrs Cresson has attracted criticism in recent weeks for her outspoken views on Japan and how to tackle immigration.

The government has also had to face another round of urban riots, and to make unpopular decisions to curb public spending.

There is also evidence that Mrs Cresson is getting less support from her own party. According to the poll, only 54 per cent of Socialist sympathisers interviewed had confidence in the premier, 12 points down on last month, while 25 per cent were dissatisfied, 16 points more than in June.

Venezuela approves big cuts in taxation rates

THE Venezuelan congress approved at the weekend big reductions in corporate and individual tax rates, writes Joe Mann in Caracas.

In one of its last acts before a summer recess, the congress lowered the maximum corporate tax rate from 50 per cent on operating profits to 30 per cent, reduced maximum rates for mining activities and areas of the petroleum industry, and set up an annual inflationary

adjustment for corporations. Both Venezuelans and foreign investors have complained for several years about the country's high corporate tax rates.

The new rate structure should open the door to investments which were placed on hold pending tax reform. The congress also raised the income level at which individuals are required to file tax returns, from \$813 a month to \$5,084 (\$2,100) a month.

Peruvian power sell-off

PERU'S state-run electricity company has been authorised to sell to private investors its shares in seven regional electrical companies, an official decree said, Reuter reports from Lima.

The decree said private investment in the companies, aimed at eliminating the

monopoly of state electricity companies operating outside Lima as well as expanding and improving their installations, was in the national interest.

The decree is similar to recent ones in which state-run companies have been authorised to seek private investors for majority participation.

France scraps plan for mobile missile

By William Dawkins

THE French government has scrapped a \$2.5bn (£1.01bn) plan for a road-mobile missile, which was to have come into service towards the end of the century.

The decision, confirmed by officials yesterday, was taken earlier this month at a meeting of the government's defence council.

It is in line with President François Mitterrand's long-standing opposition to the S-4 missile scheme, on the grounds that nuclear weapons travelling by road during international tensions might create public panic.

However, the Defence Ministry had kept its options open on the 12-year project, to provide information on alternatives for replacing France's current generation of 53 long-range land-based missiles stored in 18 silos in southern France.

The decision comes as the government attempts to conclude a long-running debate on which leg of its nuclear triad should be eliminated. France cannot afford to replace all three of its nuclear

deterrents, but needs to decide which ones to keep in time for the next generation of weapons to come into service by the end of the century.

The government has already decided to update and maintain its submarine-launched ballistic missiles. So the choice is between whether to update the land-based S3s, or replace the medium-range ASMP nuclear missile carried by the Mirage IV aircraft with an ASLP long-range version which could be carried by the new Rafale multi-role jet.

One factor that could influence thinking is Britain's choice of replacement for the Royal Air Force's ageing free-fall nuclear bombs, which will be obsolete by the end of the decade. The ASLP is one of the candidates, against two US rivals.

Another possibility being studied by the French Defence Ministry, officials say, is to adapt France's generation of submarine-launched missile - the M5 - for use in the S3 silos.

This could cost half as much as the abandoned mobile missile project.

Eureka's match-making prowess silences sceptics

Andrew Hill on a European research programme

GRETA, Clair and Astrid owe much to the US Strategic Defence Initiative; without it they might not be here at all.

The trio are acronyms for projects set up recently as part of the Eureka pan-European research programme - originally launched by French President François Mitterrand as a response to President Ronald Reagan's "Star Wars" research, which had become military go-getter to a brood of civil research projects in the US.

Eureka, which celebrated its fifth anniversary last month, is restricted to civilian research and aims to improve the competitiveness and productivity of European businesses by encouraging cross-border co-operation.

Mr Kim Ruberg, Eureka's information director, says: "We don't go to industry and say we want this or that - industry comes to us and says: 'We have an idea, is it suitable and can you find us a partner?'"

The tiny Brussels secretariat acts as a sort of central dating agency, matching partners from among 20 members, including the 12 EC countries and the European Commission.

For funding the partners can go to their governments or to the EC, which offers financial support for the pre-competitive aspects of Eureka projects. Once the project is under way the partners can also invite companies from non-members, such as the US or Japan, to participate.

Eureka is designed to complement the EC's top-down projects, encouraging products and ideas which should have a market application worldwide. "We aren't part of the Commission - they're part of us," explains Mr Ruberg.

Sceptics dismissed the original Mitterrand initiative as a



THE EUROPEAN MARKET

public relations exercise, but the Eureka approach has fostered about 470 active projects with a total budget of Ecu8.18bn (\$5.71bn). These include levitators such as the Joint European Submicron Silicon (Jessel) semi-conductor research programme, which may have cost more than Ecu3.8bn by the end of its seven-year span in 1996, and minnows like a 30-month Ecu1.94m project to find a new man-made alternative to leather shoe-uppers.

An assessment of the first five years of Eureka by a panel of industrialists, academics and civil servants picked out the flexibility of the programme's approach as one of its principal advantages. But there are also difficulties.

● Funding. Participants complain that although applying for and obtaining Eureka approval is fairly simple, when it comes to arranging funding from a number of different governments, projects are often bogged down in the intricacies of national bureaucracy.

Mr Herman van der Auwerter, research manager of LMS International, a Belgian company, oversaw a small Eureka

project developing techniques to analyse noise problems in cars and other vehicles. The project, one of Eureka's first, was successfully completed in February 1990, in conjunction with the Catholic University of Leuven and Porsche of Germany.

But the more complicated funding arrangements of LMS's latest Eureka venture - developing mechanical vibration testing equipment - have delayed the project.

"It would be more convenient if the financial part of the project was linked to the material part," says Mr van der Auwerter. He advocates a more uniform approach from funding bodies, in line with the assessment panel's wish that governments should synchronise financial support for individual projects.

● Relationship with EC projects. Brussels is often criticised for leaving technology policy in the hands of the Commission's technology mandarins, rather than listening to industry and users.

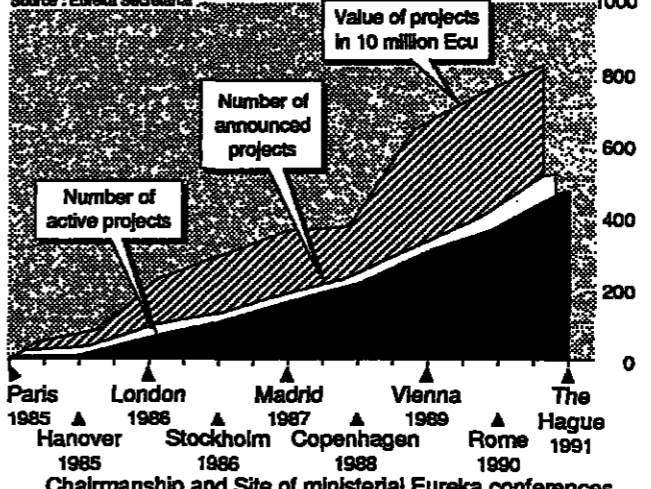
Mr Filippo Maria Pandolfi, EC commissioner responsible for research, seems to have initiated a change of strategy. In trying to salvage something from the mess of EC policy on high-definition television standards, for example, he is aiming for a parallel legislative and consultative approach.

But does such a policy risk trading on Eureka's territory? April's paper from the Commission on the European electronics and information technology industry suggested Brussels should launch a "second generation" of research programmes "ranging from projects at the pre-competitive stage to projects geared more closely to the market".

The Eureka five-year assessment is firm on this point.

Eureka project portfolio

Source: Eureka Secretariat



Chairsmanship and Site of ministerial Eureka conferences

Paris 1985, London 1986, Madrid 1987, Vienna 1988, Rome 1989, The Hague 1990, Hanover 1991, Stockholm 1992, Copenhagen 1993.

"The funding level of the EC programmes is very attractive," it says. "Therefore EC participants may be inclined to continue using the EC framework for their development of machines (IBM) to manufacture memory chips."

Siemens says there is no contradiction between the IBM link-up and objectives of the Eureka programme, although the deal appears to have ended the possibility of collaboration between European companies to compete in the world semiconductor market.

Mr Klaus Knapp, a spokesman for Siemens and Jessel, says: "Jessel is not developing final chips, but creating the basis to do so. Once products have been developed by the companies participating in Jessel, the next stage is to manufacture them. That has to be done outside Jessel."

If there is a lesson for Eureka, it may be the one already drawn by the assessment panel in their five-year report: flexibility, a wide variety of small projects and a lack of bureaucracy are all very well but "strategic projects which would give Europe an additional competitive advantage have not materialised on a large scale".

This, says the report, should be one aim for Eureka's next five years.

Ukrainian leader arrested

By Chrystia Freeland in Kiev

A SECOND Ukrainian political leader, Mr Oleksandr Serhienko, was taken into custody at the weekend, increasing suspicions that the arrest of Mr Stepan Khmara last Thursday was part of an campaign to punish the Ukraine for failing to sign the Union Treaty this summer.

Mr Serhienko, who was injured when black beret troops stormed Mr Khmara's hotel room, was arrested on Saturday on charges of resisting police officers.

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INTERNATIONAL NEWS

'New strategic relationship' with US hailed

Bush pledges aid for Turkey

By Mark Nicholson in Istanbul

PRESIDENT George Bush wrapped up his two-day trip to Turkey last night by pledging a substantial increase in US military aid and by making a strong appeal for Greece and Turkey to resolve their differences and reach a settlement over Cyprus.

Mr Bush, speaking at a dinner in the historic Dolmabahce Palace, also offered strong US support for Turkey's stalled bid for membership of the EC, saying that 10 years of "free government and free enterprise" had made Turkey the rising star of Europe.

Mr Bush added: "There should be no question that Turkey deserves entry into the European Union. Turkey can count on America's support."

Mr Bush's remarks follow a cordial and largely incident-free trip during which, though it leant as heavily on sight-seeing as specific initiatives, both leaders have spoken of a "new strategic relationship" developing out of their close contact during the Gulf crisis.

The personal chemistry between the two leaders - who consulted almost daily by phone during the Gulf war - was evident yesterday in the relaxed manner in which Mr and Mrs Bush were escorted by their hosts through Istanbul's mosques and palaces and on a steamer down the Bosphorus.

Nevertheless, both sides have sought to flesh out their broad talk of a "new" strategic relationship by setting up formal bilateral meetings between officials at under-secretary level, overseeing a host of bilateral groups to meet yearly in an effort to expand scientific, cultural, educational and commercial ties.

However, Mr Bush stressed Turkey's traditional strategic importance as a "bulwark of NATO's southern flank", pledging to increase US military aid in 1992 to \$625m. The sum is a substantial rise on this year's expected \$500m of formal military aid, although total US contributions to Turkey's defence came overall to nearer \$800m last year with the inclusion of what US officials describe as several "off budget" items, including delivery of a consignment of F4 aircraft.

The rise in aid raises questions about the US's traditional 7-to-10 ratio in military assistance to Greece and Turkey respectively. Mr Bush, who also promised Greece increased military assistance during his earlier stop in Athens, refused yesterday to comment on the ratio, though US officials privately concede that it has quietly been forgotten.

Mr Bush, following a similar appeal in Athens, made a point of calling on Turkey and Greece to bury their traditional animosities, saying "This sad chapter of ill-will must end."

In this regard, Mr Bush urged both sides to reach a solution to their 27-year deadlock over the divided island of Cyprus. "We have seen too much change in this region and throughout the world to stand for the status quo in Cyprus," he said.

However, as throughout his tour, Mr Bush insisted he was offering no fresh US peace formula. Addressing himself to both Greece and his hosts, he said: "The solution lies in your hands."

On Saturday Mr Bush offered his explicit backing for Mr Ozal's proposal for quadripartite talks embracing Turkey, Greece and the Turkish and Greek Cypriot communities. Greece has rejected the plan, claiming it accords unjustified status on the Turkish Cypriot community, which only Turkey has recognised as a state since its 1974 invasion of the island's north.

Washington apparently hopes that the formula can be made to work by fudging the status of the interlocutors for each Cypriot community, so that for instance they would be described as "leaders", or "representatives", rather than as presidents in each case. "The question is a question of community, not personality," Mr Bush said on Saturday.

However, this will succeed only if President George Vassiliou, the Greek Cypriot leader, and Mr Rauf Denktas, who in his own and Turkish eyes is the president of northern Cyprus, can be persuaded to accept the formula - something over which UN officials in New York express the gravest doubt.

Banks 'rush to lend money to Kuwait'

INTERNATIONAL banks are clamouring to offer it money following its decision to borrow billions of dollars on world capital markets to finance post-Gulf war reconstruction, Reuters reports from Kuwait.

Kuwait did not want to borrow the full \$30bn authorised by the emir last week, finance minister Nasser al-Rodhan was quoted as saying in the al-Watan newspaper yesterday.

He put planned borrowing at less than KD7bn (\$23bn).

"Many offers have come to us from big financial institutions and at very attractive rates of interest and lower than those offered to other corporations and countries," he said.

Kuwait, its oil industry left in tatters by the Iraqis, last week put a ceiling of KD10bn on its post-war borrowing. "We set this ceiling so that we need not resort to amending the law [to authorise more] if the need arose. But the need will definitely be lower than the ceiling," Mr Rodhan said.

He said Kuwait had decided against dumping its \$100bn-plus foreign investments because of the impact such a move would have on world equity markets.

"The Kuwait Investment Authority has begun surveying markets around the world to borrow money. These funds will be made available to finance the proposed budget for 1991-92 and other financial commitments that arose as a result of the Iraqi occupation and part of the costs of liberating the country," Mr Rodhan said.

Kuwait, deprived of its main income, needs cash to finance its budget, post-Gulf war reconstruction and pay for the war efforts of the US-led military alliance which liberated it from seven months of Iraqi occupation on February 28.

Retreating Iraqi soldiers set fire to up to 600 Kuwaiti oil wells, most of which are still burning. Kuwait could produce 2m barrels of oil a day before the invasion. It is now pumping about 140,000 barrels.

Settlements obstacle for Israel

IN the Jewish settlement of Adam yesterday morning, on a West Bank hilltop north-east of Jerusalem, work was going on apace on a row of new houses designed for families who have been living in mobile homes on the site.

Saudi Arabia had just joined Egypt in proposing that Arab states would end their economic boycott of Israel if Israel froze its fast-growing building of settlements in the occupied territories, which they and much of the international community regard as illegal. Mr James Baker, the US secretary of state, who has called for a settlement freeze to ease the path to Middle East peace talks, was due in Jerusalem shortly.

If all this bothered the head of Adam's settlers, who gave his name only as Beber, he wasn't letting on. "I don't talk to journalists," he said. "We live here because we like to live here, not because of ideology or politics." He quickly shut the door behind him which led to his office where hung a portrait of Mr Menachem Begin, the former prime minister, a signed photo of Mr Yitzhak Shamir, the present incumbent, and flags of their Likud party.

A short distance away, at Ma'ale Mikhmash, a religious settlement, a resident was more forthcoming in giving details. There are, he said, 60 families in the 10-year-old settlement, with 30 new houses under construction. Sixteen mobile homes have been brought in this year for families awaiting new homes.

The two settlements are testament to a recent surge in settlement building, under the auspices of Mr Ariel Sharon, the hardline housing minister, which has infuriated the local Palestinians, the wider Arab world and Washington. On a drive from Jericho, in the northern West Bank, to Jerusalem yesterday, all 10 settlements visible from the main road had new building work, new mobile homes or both.

Settlements are at the heart of the Israeli-Arab dispute. The Arabs fear Israel's drive to "create facts on the ground" is fast narrowing the chance of peace based on the return of occupied territory. By the same token, Mr Shamir, Mr Sharon and their supporters see the settlement drive as the best way to cement Israeli rule over the occupied lands.

Jewish settlement began soon after Israel captured the West Bank, the Gaza Strip and east Jerusalem from Jordan and the Golan Heights from

Syria in 1967. But the pace accelerated after Likud first came to power under Mr Begin a decade later, when there were fewer than 10,000 settlers in the West Bank. Peace with Egypt in 1979 brought no halt to the policy.

By March this year, the US State Department estimated 120,000 Jews in 12 Jewish suburbs.

The Jerusalem issue is especially sensitive. Israel annexed east Jerusalem soon after the Six Day War and treats it as an integral part of Israel, separate from the other territories. But when the international community - especially Arabs - talk of settlements, they include east Jerusalem.

Peace Now, the Israeli leftist group, estimates Mr Sharon's ministry spent about \$300m in the occupied territories in the 1990-91 financial year. Housing starts rose from 579 in 1986, to

the numbers thus: West Bank - 90,000 settlers in 150 communities, half the land designated for Israeli use; Gaza - 3,000 in 15 settlements; one third of the land of all Gaza reserved for Israeli use; the Golan - 12,000 settlers in 30 settlements; east Jerusalem - 120,000 Jews in 12 Jewish suburbs.

The latest settlement boom coincides with a loss of momentum in the Palestinian uprising in the territories. At Adam - as at most settlements - the building workers were almost all Arabs, working yesterday despite a general strike called by the uprising leadership. The scale of construction is such that even if Mr Shamir were to reverse his refusal to freeze new building, the backlog of unfinished work would keep the cement mixers turning for many months to come.

632 last year. Mr Sharon said he intends a total of no fewer than 13,000 over the next two years. Government-subsidised mortgage terms for settlers are significantly better than for those in "Israel proper".

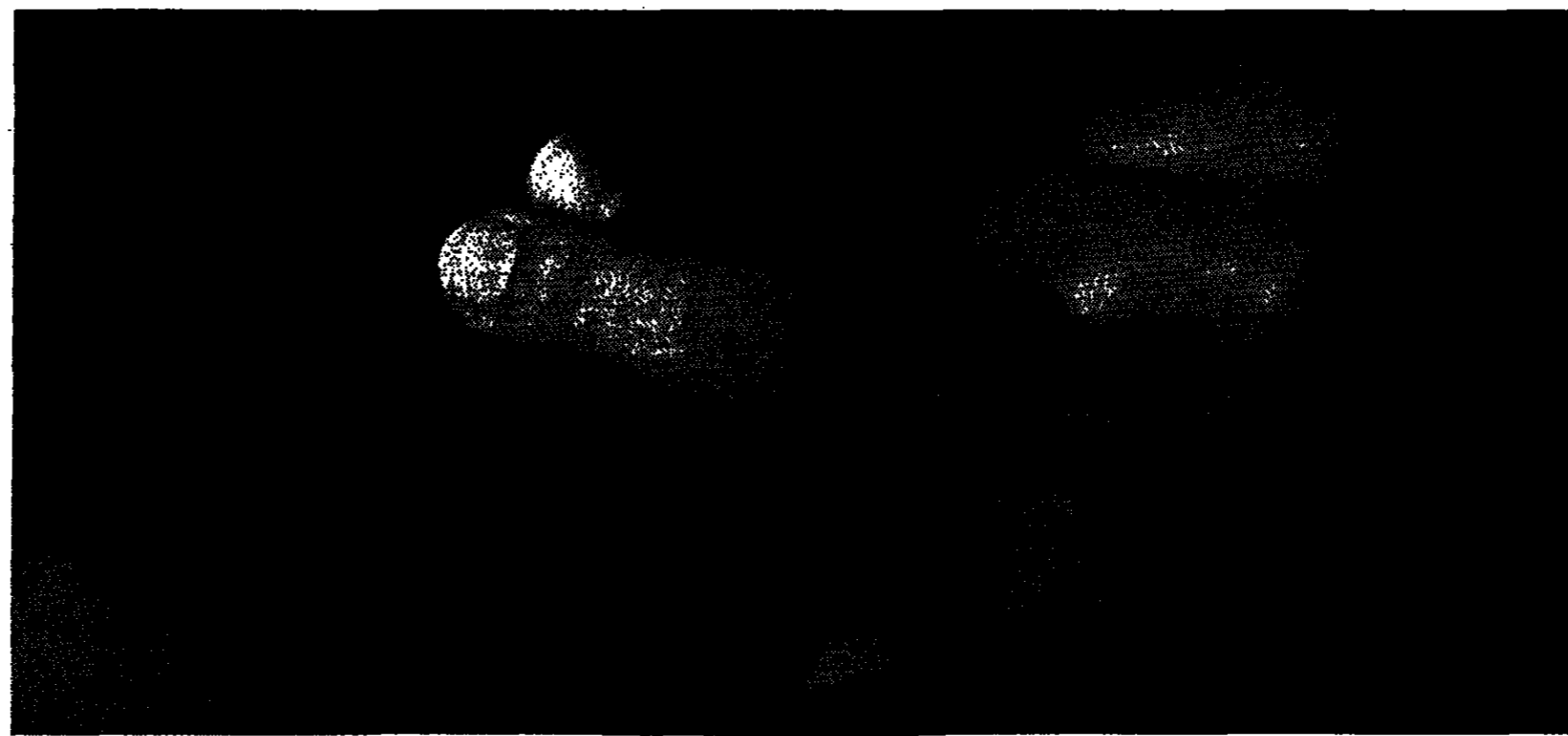
There are official plans for a big expansion to link east Jerusalem to nearby Ma'ale Adumim, further encircling Jerusalem's Arab neighbourhoods.

By contrast, a recent detailed study by a British town planner of Israeli policy towards West Bank Arab villages showed that between 1986 and 1989, about 1,500 Palestinian houses were demolished because they did not have building permits - more than the number of permits that had been issued. The report estimated Jewish settlements received permits at six times the rate issued to Palestinians.



Turkish President Turgut Ozal (right) points out the sights of Istanbul to US President George Bush yesterday, the second day of Mr Bush's visit.

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INTERNATIONAL NEWS

Bush faces tough Senate battle on China trade

By Lionel Barber in Washington

PRESIDENT Bush this week faces a stiff challenge to his China policy when Senate Democrats seek to attach conditions to the renewal of most favoured nation (MFN) trade status for Beijing.

The Senate vote is expected to be close, a reflection of widespread dissatisfaction over China's human rights record as well as its alleged unfair trade practices and its policy of exporting missiles and nuclear-related materials.

Mr Bush, a former US ambassador to Beijing who takes special pride in his China policy, requires at least 94 votes to sustain a veto of legislation proposed in the Senate attaching conditions. Since Mr Bush has yet to lose a veto fight, a defeat on China would amount to a serious setback.

The administration has already lost the battle in the House of Representatives, with members voting overwhelmingly to attach conditions to

MFN status before it can be renewed in 1992. Legislation proposed by Senator George Mitchell, Senate majority leader, and other leading Democrats, would allow MFN to go forward this year. But it would cut off the trade benefits if China exported certain medium-range missiles to Pakistan, Iran or Syria.

The administration mounted a last-minute effort last Friday to counter the Mitchell bill. In a 20-page letter, Mr Bush promised to crack down against imports of goods produced by slave labour and to renew opposition to IMF or World Bank loans to China until Beijing improved its human rights record.

Senator Max Baucus, a Montana Democrat who supports Mr Bush's decision to renew MFN for China, said the administration had also agreed to use Section 301 of US trade laws to open Chinese markets - if bilateral talks failed to

yield results next month. Separately, Mr Bush has promised to "work actively" with other parties to support Taiwan's request to join the General Agreement on Tariffs and Trade. Mr Baucus described this as a "breakthrough", even though US policy acknowledges Beijing's position that there is only one China remains unchanged.

The whiff of hyperbole suggests that Mr Bush's supporters in the Senate recognise they have a battle on their hands to defeat Senator Mitchell's bill. Mr Mitchell said that Mr Bush's letter was "mostly rhetoric" and provided no remedy on human rights - an assessment shared by Asia Watch, the human rights monitoring group.

The administration argues that removing MFN status - which is enjoyed by 100 countries - would undermine reformers and deprive the US of influence.

S African opposition leaders call for de Klerk to quit

SOUTH African opposition figures and newspapers called at the weekend for the resignation of the ministers of law and order and defence - respectively Mr Adriaan Vlok and General Magnus Malan - following the government's admission that it had made secret payments to the mainly Zulu Inkatha party, Patti Waldmeir reports from Johannesburg.

Anglican Archbishop Desmond Tutu, a leading anti-apartheid cleric, went so far as to demand the resignation of President F.W. de Klerk, if it were to emerge that he had known of the funding. The far-right Conservative party also demanded his resignation, saying the payments to Inkatha proved government deceit and violated basic principles of democracy. "Any head of government would resign immediately under such circumstances."

Mr Kobus Jordaan, an opposition Democratic Party MP, said he had evidence of much larger secret payments than those hitherto revealed, as much as R5m (R1m) having gone to Uvusa, the Inkatha trade union, he claimed. However, to protect his source, he would not release this evidence, he said.

The authoritative Sunday Times newspaper in South Africa said in an editorial that Mr de Klerk was "in danger of being dragged down by the sinister forces that lurk in his government."

For thousands, perhaps millions, of South Africans who, like Mr Mandela, took President de Klerk at face value and gave him their sympathy and support, it is becoming increasingly difficult to suspend judgment. The kindest interpretation of even this is that he has failed, so far, to establish proper control of his government," it added.

Last night, Inkatha's national conference in Umtali unanimously re-elected Chief Mangosuthu Buthe as party leader. He has been severely embarrassed by the revelation of government funding, which he claims was made without his knowledge.

These questions must be resolved before constitutional talks can proceed. To re-establish trust between himself and Mr Mandela, Mr de Klerk must prove both that funding to Inkatha has ceased and that he is ensuring that unofficial support for Inkatha - from what the ANC believes is a "third force" inside the security services - is also being stopped.

Dismissal of Mr Vlok and General Malan would improve relations with the ANC, but this seems unlikely at this stage. The president is likely to take some public action to limit the damage, especially if, as expected, there are further revelations of government involvement with Inkatha.

The de Klerk government has weathered several recent scandals, including those from infiltrating spies into local government and allegations that security force squads had murdered anti-apartheid activists.

This latest trouble seems unlikely to blow over easily. Confidence in Mr de Klerk has been shaken among South Africans in general and foreign governments.

To restore it, he must force his colleagues to abandon the dirty tricks which were the hallmark of successive South African administrations. Unless he does, no one will believe that the bad old days of apartheid are really near an end.

Chief Mangosuthu Buthe is raised aloft by members of the Inkatha Freedom Party, to whose presidency he was re-elected yesterday.

In recent months, former members of security forces have made numerous uncorroborated allegations about involvement by such forces in violence between Inkatha and the ANC, which has left 2,000 people dead over the past year. Those claims remain unproven, but the temptation to believe them has grown.

In this atmosphere of distrust and suspicion, there can be little progress towards talks on a new constitution. Mr Mandela, now president of the ANC, made this point when he first heard of the admission of funding for Inkatha.

It seems unlikely, though, that the fracas will lead to a complete breakdown in contacts. A working group which brings together the ANC, Inkatha, the government, church people and business is to go ahead this week in an attempt to end the violence.

Until that is halted, as Mr Mandela has often made clear, talks on a new constitution cannot proceed in any case. Indeed, the ANC's comments on the scandal have been oddly muted. Mr Mandela said on Friday night: "If the government continues with these criminal operations, it is doubtful we can avoid a complete breakdown in relations." This left the possibility that, if the government could prove such support had ceased, damage would be limited.

Since then, Mr Mandela and other ANC spokesmen have moderated their comments even further, pointedly refusing to exploit the government's embarrassment. They have limited themselves to calling - once again - for the resignation of Mr Adriaan Vlok, law and order minister, and General Magnus Malan, defence minister, but have not tried to make their rivals squirm.

For all that, the damage to Mr de Klerk's credibility is severe. For months, he has protested to all who would listen - including foreign governments - that Pretoria is not trying to sabotage the ANC. In April, he told parliament in Cape Town: "It is not government policy to render direct or indirect financial or other support to any political party or organisation, except government aid made available for a specific purpose on an equal basis, such as the payment of constituency allowances."

All of this must raise serious questions about his personal integrity or his ability to control his ministers and the security forces. The ANC has often accused the government of having a double agenda. What remains unclear is whether Mr de Klerk is himself pursuing such an agenda or failing to prevent others doing so.

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For all

Government seeks public service accountability

By Ivo Dawney, Political Correspondent

THE GOVERNMENT will today unveil its long-awaited Citizens' Charter with pledges to force greater accountability on local authorities, nationalised industries and ministry departments through enhanced performance targets and new consumer rights.

Among the measures expected are a greater role for the Audit Commission in monitoring local councils, action to reduce waiting times in the National Health Service and access to information on schools' results to broaden parental choice.

But with the Treasury doggedly resisting measures that would raise public expenditure, the emphasis of the Charter will centre on making public services more accountable and "user-friendly" rather than imposing financial penalties for poor provision.

It is understood that plans to give British Rail passengers a right to financial recompense if services do not meet specified standards have been "diluted" alongside measures to review the powers of regulators for the newly privatised utilities. Ministers are already braced

for an onslaught of criticism from opposition parties, determined to undermine what has been presented as Prime Minister John Major's personal initiative and a key component in the Tories' election manifesto.

The white paper comes at the start of a hectic final week of business prior to the summer holiday recess.

Tomorrow, the government is due to publish details of its armed services cutbacks alongside a report into the Gulf "friendly fire" tragedy in which British servicemen were killed by US aircraft.

At the same time, the Cabinet will meet for its annual pre-holiday discussions on the public expenditure round, amid reports that Whitehall departments have submitted "bids" amounting to well over £10bn above last year's spending.

Other scheduled announcements include publication by Mr Michael Heseltine, the environment secretary, of next year's Revenue Support Grants (RSG) for local authorities and, on Wednesday, the green paper on trade union reform.

Yesterday, Labour attempted to pre-empt the Citizens' Charter

white paper with a series of demands for new controls on the privatised utilities. Mr Gordon Brown, the trade spokesman, said that the opposition would not be satisfied if the government failed to promise new legislation in the autumn to boost the powers of regulators.

In particular, Mr Brown argued that Ofel, the British Telecom consumers' watchdog agency, should be given the right to penalise high executive salaries and other "boardroom abuses" by restricting rises in telephone charges or offering rebates to phone users.

Labour was also preparing to launch its own consumers' charter for rail users.

Party officials claimed yesterday that private polling of a weighted sample of over 800 voters showed 58 per cent viewed the Citizens' Charter as "a gimmick" with 29 per cent disagreeing.

However, there was some cheer for the government yesterday in an Observer/Harris opinion poll showing the Conservatives have narrowed Labour's poll lead from 10 per cent to 3 per cent.

THE BCCI SHUTDOWN

Bank accounts 'used to finance Arab terrorism'

By Alan Friedman in New York

A STRUGGLE between US government agencies and law enforcement officials over the investigation of the BCCI affair was building yesterday amid evidence that accounts at the bank's London branches were used to finance Arab terrorism - including the handling of accounts for Abu Nidal.

A US official who asked not to be named said he was aware of these accounts. The official confirmed that in the UK the Bank of England had discussed the matter with British intelligence services.

In Washington, the Department of Justice declined to "either confirm or deny" the existence of accounts at BCCI in London that were used to

help finance the activities of Abu Nidal and other Arab terrorist groups.

Mr Robert Morgenthau, a Manhattan district attorney who has been investigating alleged money laundering by BCCI as well as the bank's secret control of First American Bankshares in Washington, said that for months the Justice Department had ignored his repeated requests for crucial BCCI documents and information, which the Justice Department also denied.

Both current and former investigators have said the Justice Department has been trying to ensure control of the BCCI case for itself and to hinder efforts by investigators outside the department.

Mr Morgenthau said that "representatives of the Justice Department have suggested to BCCI witnesses and to British government officials in London that they not co-operate with our investigation."

The Justice Department responded swiftly saying: "We are not telling witnesses not to co-operate with anybody." It added that "in every investigation we always co-ordinate with state and local officials, including Mr Morgenthau's office." The disclosure of terrorist accounts at BCCI is the latest of a series of clandestine activities coming to light in the wake of the closure of the bank on July 5.

Auditors concerned at bad loans for over 10 years

By Richard Waters

THE AUDITORS of Bank of Credit and Commerce International had been concerned for more than 10 years about the way large bad loans were treated in the bank's books, according to a senior financial executive of the bank.

BCCI's attempts to disguise these bad loans, by breaking them into smaller amounts and shuffling them between different subsidiaries of the group, were at the heart of the fraud which led to the bank's closure. As early as 1980, loans to people connected to the bank were disguised in this way, according to the financial executive, who declined to be named.

The former BCCI financial officer said the Price Waterhouse partner responsible for the audit of BCCI (Overseas), the bank's subsidiary based in Grand Cayman, had repeatedly expressed concerns about the treatment of these loans in BCCI's books.

Despite its long-held concerns, Price Waterhouse never qualified any of its audit reports on the BCCI accounts.

Many of the loans shown in the books of the bank's Cayman operation originated in the London branch but were

booked in the Cayman Islands for tax reasons.

According to the former executive, loans were passed by book entry between different subsidiaries with no supporting documentation. Interest which accrued on the loans was taken into the bank's profit and loss account, even though no interest was ever received.

The audit of the Cayman operations involved Price Waterhouse staff in both the Grand Cayman, where many of the loans were booked, and London, where documentation was meant to kept.

BCC(E) may take over branches in Pakistan

By Farhan Bokhari in Islamabad

A TAKEOVER bid for the three BCCI branches in Pakistan has been conditionally approved by the board of directors of the Bank of Credit and Commerce (Emirates), the United Arab Emirates affiliate of BCCI.

The approval is conditional on a settlement of a final price this week with the State Bank

of Pakistan, the central bank.

Last Tuesday, two senior BCC(E) executives formally told Mr I.A. Hanafi, Pakistan's central bank governor, of their interest in acquiring the BCCI branches. A senior banker yesterday said a settlement might take place this week.

Senior officials have said recently that they would like

the BCCI branches to continue operations even under a new management such as the BCC(E), but would like to be certain that there are no legal issues involved. A BCCI banker said the future of the liabilities of the bank, especially its foreign-exchange commitments, would also need to be discussed.



About 500 people demonstrated through the streets of Hong Kong yesterday in protest at the bank's liquidation

Concern voiced over protection of assets

By Bernard Simon in Toronto

THE RECEIVER of BCCI's extensive operations in the Cayman Islands is concerned that authorities in some countries are failing to take the steps necessary to protect the assets of the scandal-ridden bank. Mr Ian Wight, the receiver, declined to identify the countries, but said there are others besides Pakistan, where BCCI's branches have remained open since the seizure of the bank's assets over the past two weeks.

BCCI's Cayman operation controlled branches in 29 countries around the world. Assets controlled from the Caymans reached a peak of \$7bn in 1989. Mr Wight said authorities in some countries are considering paying out BCCI creditors "under some guise or another", which might be contrary to the interests of the creditor group as a whole. Mr Wight says he has warned the governments concerned that they could face legal action later.

Trade union law reform plans win little support from public

By Andrew Adonis

WITH the government set to publish plans for tough new curbs on trade unions later this week, an opinion poll published today reveals little public support for further legal restrictions.

The poll, carried out by NOP for the TUC, shows only 18 per cent public support for legislation to limit union rights further than already done by seven pieces of legislation passed since 1979, with 66 per cent opposed. Even Conservative voters are strongly against, with 21 per cent in favour and 66 per cent against.

The poll also shows 93 per cent popular support for a legal right for an employee to trade union representation when in dispute with an employer, and 85 per cent support for legal

rights to a minimum wage, for limits on hours of work and for rights to minimum number of days paid leave. The government is strongly opposed to enshrining any of those rights in law - British or European.

"Union bashing is unworthy of the government," said Mr Norman Willis, TUC general secretary. "Every other country in the European Community preaches and practises social partnership at work - this poll shows the British people want this too."

The green paper, to be launched later this week by Mr Michael Howard, employment secretary, will feature a series of controversial measures to be enacted should the Conservatives win the next election. Under the proposals, unions

would be required to observe a seven-day cooling-off period before calling strike action after a successful ballot. They would also be obliged to give employers notice of precisely what industrial action was to be taken.

An inter-union agreement by which the TUC determines which union should represent a group of workers would be over-ridden. Instead, employees would be able to choose which union they wished to join.

More stringent financial reporting rules for unions, and enhanced powers for the trade union certification officer, will also be proposed. Ministers are also considering giving individuals a right to compensation for loss resulting from unofficial industrial action.

ALL YOU COULD ASK FOR UNDER ONE ROOF.

From the moment you enter the air-conditioned cabin, there is little doubt that the standard selected for the Jaguar Sovereign is one of uncompromising luxury.

Ease the door closed and you enter a unique environment tailored and perfumed with supple, hand-stitched hides. Here the mellow lustre of inlaid burr walnut discreetly counterpoints an interior that has long been synonymous with this discreetly British Saloon.

Generously proportioned front seats, with lumbar support are electrically adjustable, so perfect positioning is available at the touch of a button, while in the rear, there is armchair luxury, and individual reading lamps add a further touch of distinction.

Windows, aerial and heated mirrors are also electrically controlled for easy, efficient use. At your fingertips, a choice of 'sport' or 'normal' automatic transmission driving modes is complemented with power-assisted steering. Whilst cruise control tames the exhilarating performance of the Sovereign's 24 valve 4 litre electronically managed engine into near silent obedience. Other technical innovations include a sophisticated anti-lock braking system and a low-loss catalyst exhaust.

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JAGUAR A RARE SET OF VALUES.

UK NEWS

Slower fall seen in London service sector

By Alan Pike

THE RATE of economic decline in London's service sector is slowing and there are signs of confidence recovering, the London Chamber of Commerce says in its quarterly economic trends survey today.

Warnings that service employers in the capital continue to face difficult conditions accompany the survey, but the chamber says the results disclose a modest slowing in the rate of decline in

activity in the second quarter of 1991. This is the first evidence of a slowing down in the decline since the recession became obvious in mid 1990.

Altogether, 36 per cent of service-sector companies now predict that profits will increase in the next 12 months, compared with 26 per cent in the last quarterly survey. The proportion predicting cuts in investment in the coming year fell slightly from 33 per cent to

29 per cent between the first and second quarterly surveys. Further reductions in interest rates were cited in the survey by 73 per cent of service-sector companies as the most important ingredient for improving business prosperity.

The slowing in the rate of decline in business activity for service companies was not reflected in London's manufacturing sector. The survey says jobs are now being

lost at a faster rate in manufacturing companies than service ones.

A total of 62 per cent of manufacturers reported a fall in domestic orders in the second quarter - up slightly from 60 per cent in the first quarter - and 69 per cent of businesses were operating below full capacity compared with 81 per cent in the previous quarter.

The proportion of manufacturing employers reporting an

overall reduction in staff rose from 41 per cent in the first quarter of the year to 52 per cent in the second.

The chamber predicts that London will continue to suffer disproportionately from job losses.

London Chamber of Commerce Quarterly Economic Trends Survey, 69 Cannon St, London EC4N 5AB. £12 members, £18 non-members.

Road deal expected to be won by French

DEPARTMENT of Transport officials are close to awarding the contract to build Britain's first privately financed toll motorway to a French-led consortium containing four British construction companies, Andrew Taylor writes.

The 30-mile motorway to the north of Birmingham is expected to cost about £250m. The total bill, including financing costs, is likely to rise to about £500m.

The consortium now favoured to win the contract is led by Cofiroute, a large French toll road operator. It is being supported by Manufacturers Hanover, the US bank.

British members of the consortium include Robert M. Douglas, Alfred McAlpine, A. Monk and A.F. Budge. There are also three French contractors, Sopas, Jean Lafevre and GTM International.

A joint venture between Trafalgar House, the UK construction, property, shipping and hotels group, and Balfast, Europe's largest toll road operator, had previously been considered favourite to win the contract.

The Cofiroute consortium is understood to have offered better financial terms. According to one construction company close to the deal, the Franco-British consortium is "90 per cent certain of winning the award".

Trafalgar House is bidding £114m for Derry Corporation, which owns Monk, one of the members of the Cofiroute consortium.

Investment today is highly mobile and there is a lot of competition from other commercial centres. The recession will help keep the place on its toes.

The Henley Centre for Forecasting, in its annual Planning for Social Change survey, published today, the centre predicts a renewed drift in favour of professional and managerial jobs once the economy recovers.

The proportion of the population in groups A, B and C will rise from less than a third in 1985 to almost 50 per cent by the year 2000.

With rising "discretionary income", the Henley Centre expects people to spend less time on watching television and more on hobbies, sports and holidays that take them out of the living room.

The survey indicates a declining antipathy to foreign companies opening for business in the UK. Only 5 per cent of those asked would positively refuse to work in Britain for a European company, compared with 10 per cent two years ago.

Environmental concerns grow

NINE OUT OF 10 consumers say that concern for the environment influences the products they buy to some extent or other, according to the annual Planning for Social Change survey published today by the Henley Centre for Forecasting.

Four out of 10 say environmental concerns are influential most or all of the time.

With concern about pollution continuing to grow at a steady rate, 11 per cent of people in the survey claimed that everything they bought was environmentally sound.

About a third were prepared to pay at least 5 per cent extra for products that avoid burning the ozone layer, or that avoid harming animals.

Planning for Social Change 1991-92 is published by the Henley Centre for Forecasting, 24 Tudor Street, London EC4Y 0AA. By subscription.

Morris ponders reshuffle among TGWU leaders

By John Gapper, Labour Editor

MR BILL MORRIS, the next leader of the Transport and General Workers' Union, is thought to be planning a reshuffle of the union's leadership that would include removing Mr Eddie Haigh from the Labour party national executive.

Mr Morris has told colleagues that he wants the union to be represented on Labour's national executive committee (NEC) by whoever is elected as his deputy. He is apparently unsatisfied by Mr Haigh's performance on the NEC.

Mr Morris wants the TGWU to mirror the National Union

of Public Employees and the GMB general union by having its deputy leader on the NEC rather than Mr Haigh, who as TGWU assistant general secretary is the union's third-in-command.

The forthcoming election for TGWU deputy general secretary will be the first stage in a reorganisation of the union's leadership to coincide with the retirement of Mr Ron Todd as general secretary in March next year.

The two main candidates to become deputy to Mr Morris are likely to be Mr Jack Dromey and Mr Jack Adams, the national secretaries responsible for public services in the

motor industry. Mr Morris is thought to favour Mr Adams.

If Mr Adams is elected, he could not join the Labour NEC because he is a member of the Communist party. In that event, Mr Morris may favour the nomination of Ms Margaret Prosser, at present the union's national officer for women.

Mr Morris is believed to have wanted a reshuffle under which Mr Adams would become his deputy. Mr Dromey would be appointed to a vacant assistant general secretary post and Ms Prosser would become the union's national organiser.

However, Mr Dromey resisted pressure from the union's left caucus to accept that arrangement rather than stand against Mr Adams. Mr Dromey is now unlikely to be appointed assistant general secretary if he loses the deputy leader election.

Although the TGWU has no automatic seat on the Labour NEC, it is virtually guaranteed that its nominees will be elected to one of the 12 union seats on the NEC because it is the largest affiliate to the party.

Mr Dromey declared on Friday that he would stand for the union's deputy leadership, which will be vacated by Mr Morris when he takes over from Mr Todd.

Mr Adams is believed to be considering declaring his own candidacy this week.

Union merger talks are 'constructive'

By Andrew Adonis

WEEKEND merger talks between the EEUPTU electricians' union and the AEU engineering union were described as "constructive" and will continue over the summer.

A merger would be more than 1m strong and would greatly simplify bargaining in British industry. Even so, it might cause dissonance in the Trades Union Congress, from which the EEUPTU was expelled three years ago after its refusal to accept TUC rulings on single-union agreements.

Mr Bill Jordan, AEU president, said yesterday: "The discussions were preliminary, but we expect to get to substantive issues soon."

Merger talks foundered two years ago when the AEU's national executive voted narrowly against merging with unions not affiliated to the TUC.

A merger would provide the EEUPTU with a route back into the TUC. Pressure on it to find a way of rejoining increased last month when the annual

conference of the Confederation of Shipbuilding and Engineering Unions voted to expel the EEUPTU at the end of 1992 unless it takes steps to rejoin the TUC. The AEU abstained in the vote, with Mr Gavin Laird, AEU general secretary, describing the action as "a token of friendship" with the EEUPTU.

Relations between the two unions on the shop floor are close, and in spite of difficulties likely to arise with the TUC, a merger with the cash-rich EEUPTU is an attractive proposition for the AEU.

The merger would be a radical different constitution, which will make the merger negotiations complicated.

Job losses are worst in south-east, Labour says

By Andrew Adonis

MORE THAN 500,000 jobs have been lost in the past year, with the south-east worst affected and the rate of losses accelerating, according to a Labour party survey published today.

The survey, based on analysis of national and regional newspapers, shows 208,830 losses in the second quarter of this year.

Of those, 23,000 - 37 per cent of the losses - were attributable to specific regions in the south-east. The north (10,000 losses) and Scotland (8,000) were also badly affected, with Wales the only region to record an increase on the previous quarter.

Defence cuts, concentrated in the south-east, were responsible for more than half of all losses between April and June. Manufacturing of metal goods, engineering and vehicles accounted for 13.5 per cent; and transport, telecommunications and energy for 14 per cent.

Mr Henry McLeish, a Labour employment spokesman, said the survey greatly underestimated the true level of job cuts, since it was based on formal announcements. "In the past 12 months over 1m jobs may have been lost - yet another reminder of the government's economic failure," he said.

The survey supports recent warnings by the Organisation for Economic Co-operation and Development that economic recovery will be slow and uncertain.

The latest OECD forecast warned that growth in Britain would be minimal (0.2 per cent) in the second half of this year, with the economy likely to grow more slowly than that of any other country in the Group of Seven leading industrialised nations in 1992.

Survey finds increasing 'annual hours' deals

By Andrew Adonis

SERVICE-SECTOR companies are beginning to adopt "annual hours" systems, by which working obligations are expressed in an annual and not a weekly total, according to a report published today.

The report, by the Income Data Services research group, cites a number of recent annual hours agreements. Bristol and West building society, for example, now offers staff a choice of contracts ranging from 1,826 hours to 2,526 hours a year.

Staff at Yorkshire Television are obliged to work a basic 1,924 hours a year, with the company able to require them to work a further 150 hours in overtime.

Annual hours systems were increasingly adopted in manufacturing industry in the late 1970s and early 1980s, particularly in continuous-process industries.

Advantages of annual hours systems cited by employers include flexibility (especially for seasonal and shift working), the reduction or elimination of overtime, more stable labour costs and lower absenteeism. Employees mention more leisure time and greater stability of earnings.

The report says: "Annual hours arrangements are often introduced as part of an overall package which includes new payment systems, grading structures and working practices."

IDS Study 486, Income Data Services Ltd, 138 St John Street, London EC1V 4LS.

Hard times turn the bloom into gloom in Bristol

Michael Cassell in a city that had to cancel its flower show

THE BLOOM has gone out of Bristol. With the commercial capital of the south-west wailing in the recession, the city's flower show has been cancelled for the first time in 46 years.

Mr Roy Smith, secretary of the Downland Horticultural Society and an exhibitor for 20 years, mourns the loss: "It's a very sad day. For many of us the show was the highlight of the year." No one can say with any confidence whether it will be revived in 1992.

The decision, announced by a charge-capped city council unable to attract a private sponsor to help meet the show's cost, follows the cancellation of the British powerboat grand prix, which draws 250,000 visitors to Bristol from around the world. This year it failed to secure a corporate sponsor with £100,000 up its sleeve. Unexpected gaps in the city's busy calendar of events may not, at first glance, appear to be the stuff of crisis. Yet they help to confirm that, in spite of outward appearances, even Britain's economic strongholds are under siege.

The city still looks smart, its wide streets busy with tourists and stores in the Broadmead shopping centre selling high-margin "treats" to customers who are compensating themselves for cancelling the annual holiday. Even Verrechia & Sons, the local ice-cream makers, managed to put on a brave face when the brief, summer heatwave sent sales soaring.

Bristol has been regarded as one of Britain's "sun belt" cities. It has taken full advantage of an extended period of economic buoyancy to act to transform its commercial base, attracting new-technology industries and financial services while trying hard to

maintain a declining manufacturing sector.

As traditional jobs have dwindled, jobs in banking, insurance and other financial services have flourished, creating more than 30,000 jobs and enabling Bristol to claim that it has become Britain's "second financial city".

New-technology companies have also poured in to help complete the picture of a dynamic local economy trying to cope with the familiar ailments of success, such as skills shortages and lengthening traffic jams.

For all its efforts, though, Bristol has not been able to escape. This time the recession has bitten deep into the type of economic activity that was not supposed to get badly hurt.

Many of the financial institutions that have moved into the city since the last recession are now shedding jobs. Employers in the insurance sector, such as London Life and Clerical, Medical and General, are engaged in redundancies. Banks and financial service companies are shedding increasing numbers.

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No escape: Bristol transformed its commercial base but still feels the recession



BRISTOL

cent. In some localities it runs as high as 25 per cent.

Mr Graham Robertson, leader of the Labour-controlled council - still clinging to its policy of avoiding compulsory redundancies - says the real tragedy of the decline in defence work is the potential loss of engineering and electronics skills. The trouble, he emphasises, will be compounded by the recession.

"Many of our small businesses could have absorbed the skilled workers looking for jobs but they are now under real pressure. Not only are they losing sub-contract work but they

are being squeezed hard by the banks."

Mr Robertson is optimistic about Bristol's longer-term prospects but pessimistic about the immediate future. "I think it will get worse yet before it gets better."

The emphasis is on optimism at the Bristol Development Corporation, controversially instructed to redevelop about 900 acres of city-centre land but waiting for the economic revival necessary to help it achieve its ambitions.

Mr Miles Collinge, chief executive of the BDC, agrees that the local economy has suffered badly and admits that any further deterioration would spell disaster. "The recession will probably take longer to pull out of than many expect. But the idea that it might get worse is impossible to contemplate."

Mr Collinge looks for the silver lining. "The city faced problems of overheating and the setback has at least given us the opportunity to take stock and try and redress imbalances before targeting fresh inward investment."

"The danger for a place like Bristol is that it can get a little complacent. Once that happens, it can become vulnerable."

Another hint of a slowing in the rate of decline is contained in the survey's results in wholesaling. Although sales volumes are below last year's levels for the ninth successive month, the balance of minus 20 per cent of wholesalers reporting lower sales compares with minus 31 per cent in May and minus 48 per cent in February.

A balance of minus 27 per cent said that sales last month were poor for the time of year, compared with minus 35 per cent in May and minus 51 per cent in February.

Further falls in sales are expected by wholesalers this month, although they believe the rate of decline will remain "less severe" than at the beginning of this year.

Across the distributive trades as a whole, the survey shows that in June distributors placed lower volumes of orders with suppliers than a year earlier. That has been an unchanging picture for 14 successive surveys.

The survey shows a further severe decline in motor trade sales in June, with a balance of minus 82 per cent of traders reporting sales down on a year earlier.

Traders interviewed for the survey expected to see a further decline in sales this month compared with last July, although the survey was conducted before the introduction of discount campaigns by a number of car manufacturers.

Impact of recession

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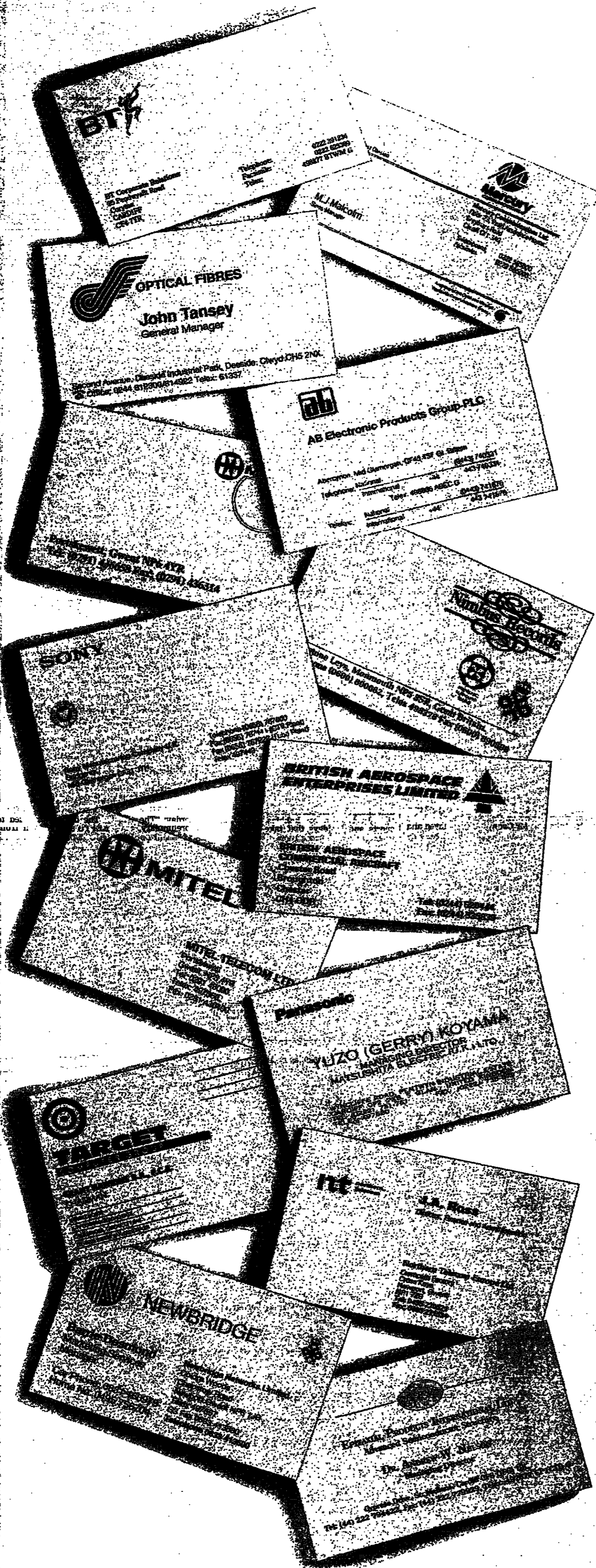
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THE WELSH ADVANTAGE.



MANAGEMENT

The argument between industry and the City over short-termism has not gone away. Indeed, the current wave of criticism of the banks for "profligately" on their loans to companies during a recession and in spite of falling base rates is just another example of the fact that to many in industry and commerce the City has failed to do what is expected of it.

It is unfortunate that there is a mismatch in both perception and reality between the City and the corporate sector over the roles of both the capital and the money markets.

The City, and especially that part of it concerned with the capital market, seems to think that the corporate attack on it is that it is short term in the sense that it misprices shares. It is perceived to do that because at the heart of its operations are two malfunctions.

First, analysts and fund managers emphasise current earnings and dividends rather than future ones, and apply their price/earnings ratios to figures which are too low.

Second, fund managers are under short-term pressures because of the way in which they are evaluated on their quarterly performances.

The fact is, however, that the corporate critique of the City is much broader. Business sees the equity market primarily as a source of capital; that is, the place where, in the first instance, companies become widely owned by the public as a result of initial issues of shares for cash, and then later as the place where additional capital is raised as a result of secondary issues. But unfortunately over the years the City and the capital markets have, to an extent, lost sight of this fundamental purpose and no longer see themselves primarily as company developers, finding finance for industry and commerce via the promotion of new stocks.

The City's counter attack is that: ● The stock markets' pricing behaviour is not the cause of the problem; shares are not mispriced. The market does not over-emphasise current earnings and dividends; price/earnings ratios do reflect long-term forecasts and growth prospects. Indeed, company announcements about capital expenditure, research and development and new investments often result in price increases. The markets are not, in fact "short term".

● Management, however, often takes a "short term" stance in the corporate sector. Current businesses are milked, and R&D is neglected because of short-term pressures to increase the dividend, to increase the share price, to respond to fund managers who are evaluated quarterly, and to ward off the takeover threat.

● All this intensifies management's propensity to be short term. This is brought about basically by reward systems, internal measures and capital budgeting, lack of profitable opportunities and erroneous concepts about the cost of capital.

● The solution is not to tinker with

The debate about short-termism rages on. Alan Clements suggests that industry and the City should understand each other's point of view and start working together

Why perception and reality do not tally



Alan Clements: the City and the capital markets have lost sight of their fundamental purpose

systems (the markets, taxation, financing techniques, regulations etc) but for management to "manage as if tomorrow mattered".

What is the reply of business to this? It is a three-part answer. ● Investment and merchant bankers and brokers used to hold the view that the capital market's prime purpose was as a source of capital for industry and commerce. But over the years most of the operators in the market - market makers, brokers, investment bankers and investors - have come to see the market as something else. They seem to view it now pre-eminently as a place in which stocks are purchased for their income return and for capital gain.

What is more, they are concerned less with stocks newly issued by companies than with stocks which have been in existence for a long while, and which will have changed hands many times before. The results are that buyers and sellers who ought to attempt a fundamental evaluation of their commodity - stocks and shares - often do not, and instead think more of the market as a whole, and what it will do next.

It seems that the equity markets have developed in a way which has

placed undue emphasis on secondary or trading markets. This is revealed by their pre-occupation with liquidity, and behind that, by the degree of speculation which has been seen as a necessary concomitant of liquidity. These two, it is argued, are vital for the sustenance of efficient capital markets in equity stocks.

The test of an efficient market does not seem to be its ability to provide new finance for industry and commerce, but rather its capacity to oil the wheels of trading in stocks and derivatives from them, such as futures, options and indices.

The result has been a tendency for equity investors to lose interest in the essential characteristics of an equity investment, namely the fact that it is a purchase of a part-ownership of an enterprise.

The reasons behind this loss of interest have often been stated - ownership of companies has become too fragmented (if you are a small shareholder why bother to interfere if over 99 per cent of any benefit is going to accrue to others?), and larger shareholders (the institutions by and large) are more concerned with diversification of their portfolios and performance against an index. The result

is dilution of the ownership role, and a distortion of the market's fundamental purpose.

That purpose is the facilitating of long-term investment in the economy via the raising of new finance, and the purchase of a share of ownership in business. Unfortunately, investors have been persuaded that it is only the secondary or trading market which matters, that by studying and understanding it one can become a successful investor.

Instead, the experts have argued, a study of a stock's short-term fluctuations relative to the market plus a feel for what the market will do next, is all that is required. Liquidity is, of course, a vital feature of the market, but those developments have meant that liquidity has become synonymous with volatility and high turnover.

Why does the equity market need so much liquidity to make it efficient? What is wrong with investors concentrating on long-term fundamentals, while speculators who need liquidity fill in the gaps and smooth out fluctuations? Is it perhaps that the efficiency pursued by the market - aided and abetted by liquidity and speculation - is an efficiency of

operations measured by volumes, turnover and commissions?

The result is that the capital markets seem either to drown in their own liquidity or to complain because of starvation as a result of drought. Small wonder that the corporate sector asks: what is it all about, especially when after all the activity, and the ups and downs, the big institutions look little different from a year, or two years ago.

● The second point is that this whole process has been made worse by developments which the markets have hailed as innovative life savers such as futures and options on indices, and "portfolio insurance". They have to be regarded as counter-productive because, although they have represented the markets' attempts to make long-term investment in unstable times easier, they have intensified liquidity and volatility, and in the end they have not really worked - witness the stock market crash of October 1987.

More important, they have widened the already sizeable gaps which existed between investors and the companies whose shares they contemplated buying. Why? Because now the investor could, in a large way, buy the market and not individual stocks.

The stock market exists, in the eyes of the corporation, as a mechanism which transmits investors' decisions as to which industries and companies are most likely to prosper, into final values, and thus makes it possible for these favoured "names" to raise new capital and grow. But now, as a result of derivatives and the like, investors commanding huge pools of money can influence the market without exercising this vital judgment. In fact by 1987 a massive amount of money was only "passively managed" - small wonder that disillusionment with the whole system set in.

● The corporate sector is still perplexed that companies can have two values - one the result of the normal interplay between buyers and sellers in the everyday efficient market, and the other the product of a bid. The real point about the difference between the two valuations is that it seems to prove that in the normal course of things the true value of retained earnings is overlooked. The price/earnings multiples which emerge in takeovers are nearer the "truth", if one can use that term in what is, after all, a game played against a background of almost total uncertainty.

Having restated the industrialists' case, what can be done about it? First of all, the City and the corporate sector should stop blaming each other. Once again both are in deep trouble.

Both sides need to see whether they can appreciate each other's point of view, agree that there is something in each side's case, and then sort out how to work together to make the economy viable and vibrant again.

The author is the former finance director of ICI and is chairman of David S Smith (Holdings).

Clean clothes to scale fresh peaks

Chris Tighe meets an entrepreneur making the move from big to small business

Former Coleroll chairman John Ashcroft discovered the downside of high-profile acquisitive management last year when the empire he had constructed collapsed with debts of around £250m.

When the consumer products group, hit by high interest rates and the consumer spending slump, went into receivership last June, Ashcroft, who had resigned several months earlier, was ill with hepatitis and sick of entrepreneurship.

Too jaded even to read a business newspaper, the Wigan miner's son toyed with the idea of topping up his London School of Economics degree with a PhD. But then the siren voice of business proved too much for Ashcroft, variously billed in 1980s profiles as shrewd, analytical, inspired, arrogant and aggressive.

"There's nothing more satisfying than getting hold of a business and making things happen," says Ashcroft, 42, now chairman and managing director of his first 1990s acquisition, the appropriately named Survival Aids. "I knew I would have to get back into business."

Does he miss the thrill and kudos of running a big company? "You go through different phases. You learn to make the best of what you're doing." Large organisations have their drawbacks too; the danger, he says, is that the chief concentrates too much on administration and external relations, at the expense of contact with the operating companies.

"You used to be able to look into the factory and listen to the machines, see the faces of people and understand if there's a problem."

And you can end up running a very large company with only a very small equity stake; now, he says, he wants to build his own business interests. He will pursue other companies, he says, but his acquisitions will not be welded into one group.

As well as working to boost Survival Aids' annual turnover from £4.5m to £10m-15m within five years, and doing freelance consultancy work, he is looking to buy one or two more companies this year.

But he insists he is in no rush. "I won't look at anything marginal or iffy. I can't afford that risk for my career, my credibility or financially. I came here to re-prove some principles to myself and others."

"Here" is a stone-built cottage in the idyllic Cumbrian village of Morland, near Penrith, where Survival Aids was founded in 1979 by Nick Steven, a former Royal Signals Captain. Ashcroft had long been intrigued by the military and survivalist clothing and equipment sold in the company's shop at Euston Station in London.

Spotting an advertisement for an outdoor clothing company for sale, he responded. Stiff bargaining followed but in January, he and a group of friends, including B & Q vice chairman Jim Rodkinson, acquired a 75 per cent stake for an undisclosed six figure sum.

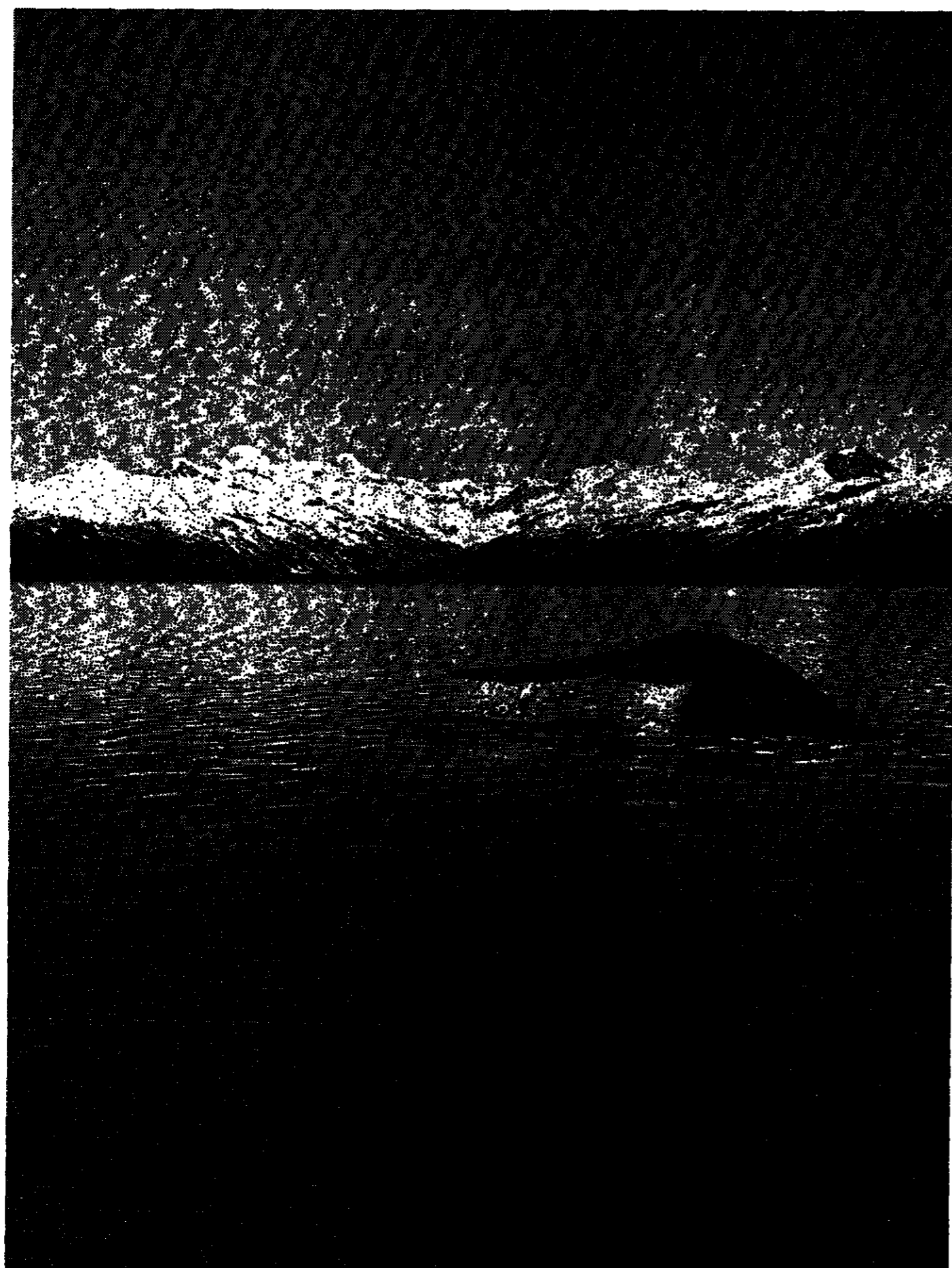
Survival Aids' attractions were what he saw as its rugged image and ethos, its excellent cash profile and lack of debt, its potential for expansion and the appeal of its products to footloose, mortgage-free empty nesters - "exactly the people who weren't Coleroll customers".

The company, which has no manufacturing capability, employs 50 people. Its goods, many of which are imported, are sold by mail order, by contract to customers including the Ministry of Defence, and through five retail shops.

Even with Ashcroft's plans to boost the number of shops to between 20 and 30 in five years - four, all financed from internal cash flow, are to open next month - Survival Aids is tiny compared with the former Coleroll Group with its 8,500 employees.

Ashcroft's arrival at Survival Aids was greeted with some apprehension, says sales director Tolla Sutcliffe. But, she says, he has been a breath of fresh air, a perceptive teacher combining charm and toughness with a clear sense of direction.

"He's nothing like the man we had read about." She sounds relieved. "There are no politics here, no claws needing sharpening."



The few blue whales remaining alive in the world are no match for the predator who has carelessly eliminated eight hundred species of life from the face of the earth in this century alone: Man.

Like every other creature in the sea, the blue whale requires clean water to live.

The Samsung Group has designed and is currently producing supertankers with a double-hull, double-bottom construction that prevents oil spills.

The vessels, which are being built for major oil companies in the United States and Europe, are proof that technology can make man a protector instead of a predator.

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Bank of Credit & Commerce International

A Statement by the majority shareholders

The majority shareholders of the BCCI Group were shocked by the abrupt action taken by the Bank of England, the Luxembourg Monetary Institute and other regulators on Friday, 5th July 1991 to freeze the assets of the BCCI Group and close its operating branches. This action was taken without any consultation whatsoever with either the shareholders or with the Central Bank of the United Arab Emirates, a member of the College of Regulators. Since April 1990, the Government of Abu Dhabi and related institutions have held a majority shareholding in the BCCI Group.

As is well known, BCCI has encountered various operating problems in recent years and has sustained substantial losses. In order to deal with these problems the majority shareholders have brought about Board and management changes and have injected substantial amounts of fresh capital into the Group.

In October 1990, as a result of the disclosure of various irregularities, the President and the Chief Executive Officer resigned. At the request of the majority shareholders an internal inquiry into these irregularities was instigated shortly thereafter and is continuing. The majority shareholders believe that they took effective steps in mid 1990 to prevent the occurrence of new irregularities.

The majority shareholders feel that they cannot absolve Price Waterhouse from all responsibility since they have been auditors of a major subsidiary (BCCI Overseas) for fifteen years and auditors of the whole Group since 1987.

Towards the end of 1990 the majority shareholders produced a restructuring plan for the future involving the divestment of all the Group's banking activities, principally by disposal on a going concern basis, with an orderly run-down of any remaining businesses. This plan has been developed and refined during the first six

months of 1991. Detailed discussions about it have been held with the Bank of England and other regulators, who were kept informed of developments at every stage.

A key element of the restructuring plan was the formation of three new and separate banks, to be based in London, Abu Dhabi and Hong Kong. Planning for this was at an advanced stage, since it was intended that the new banks should commence operations before 1st January 1992. With the active encouragement of the regulators various senior members of staff had already been recruited. The majority shareholders had been prepared to support the plan with such further injections of capital as would have been required.

Final drafts of individual restructuring plans for the new banks had been sent to the relevant regulators during May and June 1991 and, at the request of the Bank of England and the Luxembourg Monetary Institute, the latest draft of the composite restructuring plan was sent to them on 3rd July, only two days before the closure on 5th July.

The action taken on 5th July has resulted in severe problems (involving financial hardship in many cases) for more than 1.25 million depositors of the Group worldwide and some 12,000 staff are likely to lose their jobs. It has resulted in the destruction, at a stroke, of what the majority shareholders believe was a well structured and viable future plan. If the restructuring plan had been allowed to proceed the majority shareholders have no doubt that no depositors' money would have been lost.

In view of all the above, the majority shareholders deplore what they consider to be the unjustified action taken by the Bank of England, the Luxembourg Monetary Institute and other regulators on 5th July 1991.

The majority shareholders of the BCCI Group comprise: the Government of Abu Dhabi, the Abu Dhabi Investment Authority and the Department of Private Affairs of H.H. Shaikh Zayed bin Sultan al-Nahyan.

16 July 1991

First Night of the Proms

ROYAL ALBERT HALL, BBC2 & RADIO 3

The season of Henry Wood Promenade Concerts that opened on Friday does not have the consistent flavour of several others planned by John Drummond, but it offers a solid unacknowledged survey, with a generous sprinkling of innovations and special events.

More significantly, before the first concert, it was announced that Drummond will become director of the Proms when his contract as the BBC's controller, Radio 3, and controller, music, comes to an end next May.

Having off the most prestigious part of the BBC's music output in such a way may make artistic sense in the short term. Drummond has handled the Proms with flair and good taste, carefully balancing glamour with seriousness and enterprise, while he no longer wishes to carry the burden of administration within the music department. But such a radical change of policy has implications for the future of the series (and by extension for the whole of the BBC's policy towards its orchestras and public concerts) that will

need the most careful scrutiny. One trusts the future of the Proms and the BBC's part in it under Drummond's care but not necessarily under those of an unknown successor.

To start the new season Andrew Davis conducted *The Dream of Gerontius*. It was a very British occasion in many ways, with the BBC Symphony Orchestra and the combined forces of the BBC Singers, BBC Symphony Chorus and London Philharmonic Choir, and attended by HRH The Prince of Wales, those who find the oratorio's blend of Roman Catholicism and English sanctimoniousness too much to stomach might well have recoiled at such a prospect. But some of the doubters could have been converted by the performance with a thoroughly international team of soloists - New Zealand tenor, Jamaican bass, American mezzo - and an approach by Davis that seemed to purge the score of many of its more insular properties, bringing a closer, more intimate, some of us would like to think, than to Stainer's *Crucifixion*.

Davis unfolded the scheme with steady, unaffected perception and a sure sense of shape and dramatic purpose. He did not treat any aspects too preciously (indeed there was an earthbound lack of rapture about some of the choral passages) and resisted the temptation to sensationalise some of the hand-me-down operatic moments; even the Demons Chorus was less embarrassing than often it can be.

The orchestral playing may have been efficient rather than inspired, but the soloists were rather special. Keith Lewis's Gerontius was a quite without pious sentiment, yet beautifully phrased, intelligent and profoundly human, very much in the tradition of his namesake Richard Lewis in the role rather than any of his ebullient successors. Florence Quivron made a wonderfully warm and touching angel, savouring each phrase, always poised and eloquent, while Willard White was a direct, uncomplicated priest and implacable Angel of the Agony, delivering his phrases with a ringing authority that provided the evening's most cherishable memory.

Andrew Clements



Jean Vilar in Corneille's 'Cinna', 1956

Jean Vilar

AVIGNON FESTIVAL

It is 20 years since the death of the actor and director Jean Vilar, founding father of the Avignon Festival. The occasion is being marked at this year's festival by a number of exhibitions devoted to his career. The main one in the Maison Jean Vilar contains a fine display of programmes, costumes, notices, and correspondence relating to all Vilar's major productions. It is complemented by an illustrated book *Jean Vilar par lui-même* which contains all this fascinating memorabilia arranged chronologically.

When the poet René Char and other local figures in Avignon suggested to Vilar in 1947 that he should do one performance of *Murder in the Cathedral* in the courtyard of the papal palace, they triggered an event that still flourishes today. As it happened, Vilar refused to put on *Richard II* at Avignon, but he told them that he would be interested to do a production of Shakespeare's *Richard II*. This was the start of what became an annual summer festival of drama with a fondness of doing Shakespeare in French. It was also the beginning of a new attitude to theatrical presentation that was to spread across Europe in the immediate post-war years.

The basics of that attitude were stated by Vilar the following year in "Why I have put on Danton's Death". Apart from its inherent dramatic merits, Vilar said that its style made it especially suitable for the bare open-air stage at Avignon "without decor, without curtains, without procession". It relied wholly on the vitality of the performance.

Vilar had learnt his craft from the innovative director Charles Dullin at the Théâtre de l'Atelier in Paris before the war. The young Vilar had brusquely departed from his bourgeois family in Septe to seek his fortune as an actor in Paris. In 1937 Vilar had two small parts in Dullin's production of *Julius Caesar*. He was

called up into the army in 1939 but invalided out after an operation for a stomach ulcer. As an actor he had by now become dissatisfied with the elitist boulevardism that for him typified the Parisian theatre. In reaction he formed his own small company: *Les Comédiens de la Boulotte*. It toured the regions in a caravan putting on works by Molière, De Musset, J. M. Synge. This experience of bringing unfamiliar works to a local audience in a simply produced style with great emphasis on direct communication was a fine preparation for the years at Avignon.

The exhibition recalls those years with the help of many of the original costumes designed by Leon Gischia for such productions as Kleist's *Princes of Homburg*, Molière's *The Miser*, Corneille's *Le Cid*, which introduced Gérard Philipe to Avignon. The exhibition is equally divided between Vilar's work as a director and as an actor. It recalls his giving memorable performances in *Cinna* and *Don Juan*. In 1951 to Vilar's administrative workload was added the great responsibility of running the Théâtre National Populaire in Paris at the Palais de Chaillot.

As Vilar makes clear, the establishment of a popular theatre in Paris predated him by many years. It came about thanks to an initiative in 1929 by Aristide Briant and others and it was voted into being by the Chambre des Députés. Under Vilar in the 1950s, the concept took off with an adventurous policy of extending the repertoire through production of foreign classics as well as French ones. By popular he meant open to all.

That this tradition of vigorous popular presentation still survives is attested by many major productions by directors such as Vitez, Peter Brook, Lavelli and others that have taken place in Avignon since Vilar's death in 1970.

Anthony Curtis

Royal Ballet School

COVENT GARDEN

It was something of a shock on Saturday afternoon to find Balanchine the best served of the choreographers in the Royal Ballet School's annual Covent Garden matinee. His *Valise Fantaisie* - abstracted from the longer *Glinka* of 1967 - is ravishing in its simplicity: a central couple and four attendant girls skin and flash over the stage in clear, open patterns buoyed up on the wafts of the lift. It is choreography requiring speed, attack, lightness (not always Royal Ballet virtues) and its cast, led by Jane Burn and Christopher Wheelton, did it proud. Good dances make dancers look good, and Miss Burn was shown as a bright, easy performer, and Mr Wheelton as a mercurial classicist.

The potential of their contemporaries was far from obvious in the preceding sub-Balanchine exercise especially made for them by David Bintley. This realisation of Mozart's *Les Fidis* lives up to its title

in offering academic nothings that could have been the work of Balanchine's dentist rather than of an established creator. The young performers were trapped in banal activities that resembled caricatures of Mr B's Mozartian masterpieces, and there was a confused, unfocused look to the dancing, though the work of Justin Meissner held the eye by its fluency and promise of good things to come. The boys were cursed with doublets designed for Quasimodo: the girls wore bodice emblazoned with double-headed eagles - relics of the Royal Ballet's disastrous revival of *Ballet Imperial* - and four tiny and winsome girls, who were momentarily involved, ought to have been in bed hours before. The piece should not have been shown.

The pupils of the Lower School began the afternoon with their customary display of folk-dancing - Jamie Thomson nipping fleet-footed through a treble jig - done

with great aplomb. This year's Upper School students were introduced to us in *Les Sympies*, which was made by Folke for his Petersburg students. The passage of the century, though, has made it stylistically too difficult for the young. The Royal Ballet's aspirants mope dutifully, as if attending a memorial service - lightness, the airy, dancing qualities implicit in the title replaced by lethargy. The pink lighting and the Opera House orchestra's ability to bleach the music of all poetry were additional encumbrances.

About the closing *Elle Symphonies* it needs but to be said that the young performers enjoyed themselves hugely - David Dawson an alert exponent of the Friday Night rag - and found a winning brightness of style for MacMillan's jokes and ingenuities. They worked hard and well; they had fun. And so did we.

Clement Crisp

B. B. King/Kraftwerk

FESTIVAL HALL/ACADEMY

There are many claimants to be King of the Blues, including Albert King, Freddie King, and Earl King, but no one really disputes that the title belongs to B. B. King, the 65-year-old giant whose good time urban blues were somehow included in last week's Capital Radio Jazz Festival.

He has become a classic, which presumably justified his appearance at the Festival Hall, although it is not the best venue for his reach-out-and-touch music, especially if you are seated behind the band. This provides an excellent view of the keyboard player's fingers but ensures that the sound is as muffled and flat as the Nile delta.

First on stage was a very well fed looking band which went through a long warm up act, a sure sign that the OAP star was not going to detain us long. Then B. B. himself appeared in the 1940's when he was "the Blues Boy from Beale Street", rolled on, an even better fed looking figure in a colourful braid jacket that Joseph would have envied.

B. B. does not exert himself too much these days. His playing has always been unhurried, laid back, dominating not with flamboyance but with technical skill. The famous "bent" notes were there but he was more content to play along with the band than to take off on extended solos, milking old, old favourites, like "Ain't Nobody's Business" and "Let the Good Times Roll".

It was a case of catching a legend near the end of his career, enjoying memories with this smiling father figure, rather than wondering at his genius, a Radio 2 sort of evening, missing the emotional, body churning blues that made B. B. mighty to a young audience a decade or so ago.

If B. B. gave us a man rather than music, Kraftwerk at the Academy in Brighton on Friday long. Then B. B. himself appeared in the 1940's when he was "the Blues Boy from Beale Street", rolled on, an even better fed looking figure in a colourful braid jacket that Joseph would have envied.

hip (House fans come to worship at the motherlode of every current club classic), the merely fashionable (coach loads of Germans), and the terminally unfashionable (all those young men in love with their personal computers).

The united to cheer to the echo every last blip and beat. The music is only part of the experience. Large on stage video screens project technological images. The sparse lyrical content suggest big themes, as in "Trans Europe Express". All was delivered deadpan by the black suited Kraftwerk quartet, half hidden behind their computer consoles.

Given this playing down of the personal it was not surprising when the most successful moment of the show came when the humans were replaced by four Kraftwerk robots which looked and gestured more characteristically than their creators. This mixture of technology, humour and musical minimalism left the fans well satisfied.

Antony Thorncroft

A New World Order

THEATRE UPSTAIRS



Curtain-raiser: Bill Paterson (left) and Douglas McFerran in Harold Pinter's A New World Order

To respond to a request for a 30-minute play with eight minutes of dialogue takes some front, which is one of the few things Harold Pinter offers in abundance these days, writes Claire Armitstead. The recent spate of revivals of his early works creates an illusion of activity, when in fact he has not written a fresh play for more than a decade.

A *New World Order* is one of four curtain-raisers commissioned as part of the Cross References season, co-sponsored by LIFT, the Royal Court and the National Theatre Studio, and now showing at the Theatre Upstairs.

Here, in a single scene, is the embattled intellectual, whose lot Pinter has so vigorously championed. Mute and blindfolded, the lecturer in peasant theology awaits his fate, leaving his torturers to speculate about what he thinks they will do to him, and what they will in fact do. "I feel so pure," says one (Michael Byrne), suddenly weeping. So he should, responds the other (Bill Paterson), "because you're keeping the world clean for democracy." Abstract language floats free of all concrete meaning; but is this just the torturing way with words - or the playwright's?

Composers' Ensemble

CHELTENHAM FESTIVAL

The very sound of the clarinetist Alan Hacker playing works by Maxwell Davies, Birtwistle and Goehr at a Cheltenham Festival recital must have stirred the memories of many old hands. In the late 1960s, in the wake of the Cheltenham symphony, before new music began to find many more outlets, the festival was at the leading edge of new music in this country with a regular diet of important premieres, and the Pierrot Players (later to be reincarnated as the Fires of London) made one of their earliest appearances at Cheltenham in 1967, playing Maxwell Davies and Birtwistle alongside Schubert and Weber.

That concert included Hacker's astounding first performance of Davies's *Fumino*, on Saturday in the Pittville Pump Room he played a later, less substantial piece of Davies, *The Seven Brightnesses* from

1976, but still commanded the same electrifying range and nerve intensity. In both Birtwistle's revealingly spare *Linos*, inching its way through a melodic shape in an almost primeval way, and Goehr's 1968 paraphrase of Monteverdi's *Il combattimento di Tancredi e Clorinda*, every section instantly characterised, Hacker was compelling, each note was individually shaped and made to matter.

He appeared in Cheltenham this time with the Composers' Ensemble, the group organised by John Woodrich and Mary Wisniewski, which over the last two years has compiled a Songbook (with nearly 50 items to date) for voice and five instruments from a wide range of contemporary composers. In a neatly planned and splendidly presented programme, some songs were revived from the group's first London concerts - Judith Weir's witty little

Spanish narrative *The Romance of Count Arnaldos*, Dominic Muldowney's Eislarian *On suicide*, Woodrich's own delightful *The Turkish Mouse*.

Among the new additions, Michael Finnissy had made a plucked-infectious version of the hymn *O quam glorifica luce*, underpinned by viola drones. Elena Firsova's *Rakoczi* by Mandelstam was characteristically over-ambitious in its instrumental writing and vocal demands, yet managed to achieve the kind of brooding intensity her recent instrumental works have just missed.

Her husband Dmitry Smirnov's *Silent silent Night* was yet another of his Blake derived pieces, a simple enough piece of word setting in English, woven about with highly wrought clarinet and string lines.

Andrew Clements

FESTIVALS GUIDE

AD-EN-PROVENCE

Robert Carzan's new production of Britten's *A Midsummer Night's Dream*, conducted by Steuart Bedford, receives two performances this week at the Théâtre de l'Archevêque (tonight and Fri). The opera programme also includes the new production of *La Traviata* (Sat) and the Pier Luigi Pizzi/William Christie production of Rameau's *Castor et Pollux* (Wed and Sun). Among the recitalists are Carol Vaness (tomorrow), Manfred Hoenig and Helen Donath (Wed), Andreas Schmidt (Thurs) and Margaret Price (Sun). Ends Aug 2. (18) 4217 3434

AVIGNON

On Sun the festival hosts the first of three showings of Pierre MacKaye's 1925 silent film *Salammbo*, with Florent Schmitt's score for the original soundtrack performed live by the Orchestre National d'Ile de France conducted by Jacques Mercier. The drama programme continues with daily performances of Peter Brook's production of Shakespeare's *The Tempest* and a selection of plays by the radical east German dramatist Heiner Müller. Ends Aug 2. (30) 862443

BAYREUTH

There are no new productions this year. The festival opens on Thurs with a revival of Werner Herzog's 1987 production of Lohengrin, conducted by Peter Schneider. Paul Frießings title role, with Eva Johansson as Elsa, Gabriele Schnack as Ortrud and Eikehard Witschinski as

Telramund. James Levine conducts Wolfgang Wagner's 1988 production of Parsifal (Fri), with William Poell in the title. Bernd Weikl as Amfortas, Waltraud Meier as Kundry and Hans Sotin as Gurnemanz. The Kupfer-Barenboim Ring returns for its fourth successive season (first cycle begins on Sat). Dieter Dorn's staging of Der fliegende Holländer (Sat) is also revived (Aug 2), with Giuseppe Sinopoli as conductor. Ends Aug 28. (921) 20221

CANNES The Nuits Musicales du Suquet include a concert tonight in which the festival director Gabriel Tacchino is joined by fellow pianist Jean-Philippe Collard and other friends for an evening of chamber music. Ends July 30. (92) 988277

EPIDAUROS

The drama festival at the Ancient Theatre of Epidaurus has two performances this week: the Greek National Theatre presents The Trojans by Euripides on Fri and Sat. Ends Aug 31. (753) 22026

MACERATA

Don Giovanni at the Arena Santerio (Thurs and Sun) is staged and directed by Gennadi Kuhn, with decor and costumes by Enrico Job. Don Pasquale at the Teatro Lauro Rossi (Fri) is a Roberto de Simone production conducted by Roberto Abbado. Madama Butterfly at the Arena Santerio (Sat) is conducted by Donato Renzi. Ends Aug 14. (733) 230735

MONTPELLIER

Tonight at the Eglise Saint-Paul, Yuri Bashmet leads the Moscow Soloists in a programme of Bach, Telemann and Tchaikovsky. On Wed, Bashmet plays Harold in Italy at the Opéra Berlioz-Gourmont. Tomorrow, Hildegard Behrens, Gary Lakes, Hanna Schwarz and Matthias Hölle take part in a concert performance of Tristan Act II, conducted by Marek Janowski. The Hilliard Ensemble gives a recital at the Abbaye de Caux-Minervois on Wed, Gwyneth Jones sings Schoenberg's Erwartung on Thurs, and Kent Nagano conducts a programme of Dutilleul, Mahler and Frank Martin on Fri. Ends Aug 16. (67) 616681

RAVENNA

There is a final performance tonight of La Muette de Portici (1826), an operatic rarity by Auber. Patrick Fournillier conducts Michèle van Hoecke's production, with a cast led by Tiziana Fabbricini. The closing performance of this year's festival is on Wed, when Michel Plasson conducts the Orchestre du Capitole de Toulouse in Poulenc's Gloria and Faure's Requiem, with soloists Katia Ricciarelli and William Shmlleil. (544) 422494

RAVINA

This week's programme at the Pavilion (3500 seats, with 36 acres of surrounding lawn) begins with a Brahms recital by the pianist Emanuel Ax tonight at 20.00. B.B. King and Koko Taylor give a concert on Wed, followed by the Preservation Hall Jazz Band on Thurs. The Chicago Symphony Orchestra gives three weekend concerts. The soloists in The Violin Concerto No 5 on Fri are Pinchas Zukerman. The conductor on Fri and Sat is Mariss Jansons. Angel Romero is guitar soloist on Sun. Ends Sep 2. (312) 728 4642

SANTANDER

This year's festival opens at the weekend with two performances (Fri and Sat) of Verdi's Otello by the Kirov Opera of Leningrad, conducted by Valery Gergiev. The Boston Ballet gives performances on July 30 and 31, and the Spanish National Orchestra and Folia National Opera of Poznan are among the guests in August. Ends Aug 26. (42) 210508

SAVONLINNA

The final week of the festival is dominated by performances of Don Giovanni and Rusealka by the Prague National Theatre. The Dvorak (tonight, Wed, Fri and Sun) is conducted by Bohumil Gregor, the Mozart (tomorrow, Thurs and Sat) by Zdenek Koelzer. There are also two early evening performances (Wed and Thurs) of Mozart's opera buffa La clemenza di Tito, with a large symphonic. Ends July 31. (57) 514700

SCHLESWIG HOLSTEIN

Tatyana Grindenko and Gidon Kremer are soloists with the Deutsche Kammerphilharmonie tonight in Hasedorf (repeated tomorrow in Kiel), while Vladimir

Slavakov leads the Moscow Virtuosi tonight and tomorrow in Flensburg, with Justus Frantz piano and Justus Frantz gives a recital in Kiel on Fri. In Hamburg on Sat and Sun, Frantz plays all five Beethoven piano concertos, in two open air concerts with the Festival Orchestra conducted by Yehudi Menuhin. Ends Aug 25. (431) 50700

SENA

This week's programme in the Incontri in Terra di Siena consists of chamber music evenings in La Focce on Wed, with a programme of Mozart, Kodaly and Brahms, and at the Palazzo Piccolomini in Pienza on Sat, with a programme including Schnittke's Trio (1985) and Brahms' Piano Quintet op 34. Ends Aug 4. (578) 64050

TANGLEWOOD

This week's highlight is Simon Rattle's concert on Sat, with the Boston Symphony Orchestra, in a performance of Mahler's Seventh Symphony. Other events include a chamber music evening on Thurs led by Malcolm Bilson on fortepiano and the soprano Benita Valente, and two concerts conducted by Leonard Slatkin, with Mozart piano concertos played by Alicia de Larrocha on Fri and Paul Badura Skoda on Sun. Ends Sep 1. (413) 837 1600

TORRE DEL LAGO

This year's festival opens with Yury Ahronovich, with a cast including Gheza Dimitrova and Nicola Martinucci. Madama Butterfly is also on the programme (Sat). Ends Aug 18. (Pazzale) Bevedere 4, 55048 Torre del Lago

INTERNATIONAL ARTS PREVIEW & FESTIVALS

This year's Salzburg Festival is the last before Gerard Mortier assumes full control. There are seven Mozart operas on the programme, including a new production of Die Zauberflöte in the Grosses Festspielhaus, conducted by Georg Solti and staged by Johannes Schacht (July 27, 30, Aug 2, 5, 16, 19, 26).

Opening night (Fri) sees the premiere of a new ballet by John Neumeier in the Felsenreithaus (also July 29, Aug 1, 4, 8), a Vienna Philharmonic concert conducted by Riccardo Muti (repeated on Sun), and Jürgen Flimm's new staging of Hugo von Hofmannsthal's play Der Schwierige at the Landestheater. The concert programme includes Beethoven's Missa Solemnis conducted by James Levine (Aug 15 and 18), Mozart's Requiem conducted by Giulini in the Cathedral (Aug 28), and a performance of Mahler's opera Juliette (Aug 17). Booking information: (652) 8045

Austria's other major summer festival, at Bregenz, opens tomorrow with Carmen, staged on the festival's spectacular

FINANCIAL TIMES

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Monday July 22 1991

BCCI: get the inquiry right

THE NATURE and scope of the inquiry into the events leading to the closure of the Bank of Credit and Commerce International, announced by the Chancellor of the Exchequer, Norman Lamont last Friday, remain obscure. The danger is that the inquiry will not be broad enough to discuss the real issue, which is how such an international bank was controlled in several jurisdictions in a way apparently calculated to avoid close national supervision. If the focus is simply upon the decisions made by the Bank of England under the Banking Acts it is unlikely to be conclusive.

However, official inquiries can have many purposes. They may be designed to find out the truth of what happened. They may be intended to recommend changes in the legal and regulatory framework to avoid the same problems arising in future. Or they may be intended to deflect criticism and postpone any reckoning. In this case, it might be convenient for the government if the inquiry reported after the general election.

The closest recent UK precedent for an investigation of this kind is that which examined the collapse of the investment company Barlow Clowes in 1988, followed by a report by the Parliamentary Ombudsman. Those reports uncovered administrative failings at the Department of Trade and Industry, under already superseded legislation, which encouraged the government to offer compensation to investors. In the case of BCCI, tales of lost letters have evoked some of the same impression of Whitehall incompetence. But it is unlikely that the much more professional banking supervision department at the Bank of England will be found guilty of the same kind of simple blunders as the DTI. Rather, the inquiry might be put in the awkward position of trying to second-guess the decisions of sophisticated banking regulators with the benefit of hindsight.

Political complications

Moreover, there are several layers of possible political complication. It looks likely that official intelligence organisations, including the CIA, found

BCCI to be useful, as did some powerful, international criminals. Last October, BCCI's auditors, Price Waterhouse, delivered a document which might have justified the closure of the bank as much as a more recent report, but to have triggered a dispute between the Bank of England and BCCI's major shareholder, the Sheikh of Abu Dhabi, in the middle of the preparations for the Gulf War would scarcely have pleased the Foreign Office. This last is speculation, but it will take some very tough investigators to get near to the truth of such matters. This is not a role for a judge who will sift and weigh the evidence and come to a balanced conclusion. There will need to be an aggressive attempt to penetrate the official wall of silence. The question of the power of the inquiry to require witnesses to give evidence, written and verbal, is crucial.

Open doors

Even an effective UK inquiry, however, could still miss the point about BCCI. Fault may be found with the BCCI deposit protection scheme and with aspects of the UK's Banking Acts, but with effect from the beginning of 1993 banks from throughout the European Community will be able to set up in London, subject only to supervision by their domestic regulator. The inquiry must determine how, from the late 1970s, BCCI was able to exploit its Luxembourg subsidiary, but with effect from the beginning of 1993, to evade the full rigour of Bank of England regulation, while still enjoying the advantages of London as a main operating base.

The unpalatable truth is that as banking has become a global, less regulated business, international supervisory mechanisms have failed to keep pace. Mr Lamont should speak to his fellow Group of Ten finance ministers and propose a parallel international commission, headed by a figure of stature, to examine this vital issue; and Mr Paul Volcker, the former chairman of the Federal Reserve, might be a good choice. Otherwise, in a few years' time there will have to be an inquiry into the next BCCI.

The crisis in social work

SOCIAL WORKERS tend to hit the headlines only when scandals emerge over child abuse cases or repressive regimes in children's homes. All too often, the social worker is portrayed as a fresh-faced sociology graduate, full of woolly ideas about social engineering of the worst kind. In an era of receding state frontiers, social workers can easily be made to look like interfering but ineffective busybodies, whose services have become a shabby luxury we can afford to do without.

The result is predictable: a profession which is understaffed, underfunded and suffering an identity crisis. Today's report from the Association of Directors of Social Services makes bleak reading, with 10 per cent of social worker posts unfilled, too few qualified entrants and some 2,500 field social workers - a tenth of the profession - without professional qualification. If these figures were for nurses, there would be an outcry. Yet social workers play an equally important role, heightened by the move to shift care out of institutions and into the community. Field social workers are in the front line with children and young people at risk. And they are responsible for assessing the needs of elderly and disabled people - including growing numbers of older people with degenerative diseases.

Intractable cases

Residential social workers cope with similar groups in local authority homes, often the most intractable cases needing the highest quality care. Yet four out of five residential social workers are unqualified and there is a constant flow from residential work to the better-paid field social work posts which attract more kudos. No national figures are published on vacancies in residential homes, but many in London, for example, could not remain open without agency social workers. This turnover of staff is particularly debilitating in children's homes, where stability is a precondition for the sort of care which eventually saves money. There are undoubtedly social workers who match the stereotype of the raw, theory-spouting graduate - like any other

profession, social work attracts graduate entrants. But only one in nine of those coming off social work training courses is under 25; over half are 30 or more years of age. There may be rather more of what the health minister Mrs Virginia Bottomley described as "street-wise grannies" entering social work than is commonly recognised.

Old myth

Mrs Bottomley's ideal social worker perpetuates the myth that the only qualification needed is common sense and a degree from the university of life. In fact the Department of Health now accepts the importance of training in raising the quality of social work, and has funded an additional 650 places a year on courses for the new two-year diploma in social work. This brings the total output of qualified social workers to over 4,600 a year, still short of the 5,000 places needed to meet current entry requirements. The social services directors say even this figure is too low: if all vacancies were filled tomorrow, the number of unqualified field social workers would double to almost 6,000.

Training must be increased, so that all new entrants are qualified and the overhang of unqualified social workers is progressively reduced. Local authorities could do more to encourage in-service training - there is wide variation in between authorities in the numbers seconded for training. And with women making up 70 per cent of qualified entrants, those who leave to start a family should be lured back with flexible working arrangements so that their training and experience is not lost.

Raising the public esteem of social workers may be a longer-term process. One solution under active consideration by an official working party is a professional structure for social work. This would establish a central council to determine professional standards, control entry to the profession and act on disciplinary matters - in much the same way as the professional bodies for nurses and midwives. The creation of such a body would signify a long overdue recognition of the importance to society of the social work profession.

Whatever consequences flow from the collapse of Bank of Credit and Commerce International, it is already certain to mark a watershed in international banking regulation.

After the initial shock-waves, bank supervisors everywhere are asking themselves the same questions: how could a supposedly well-established regulatory system have permitted a \$200m rogue institution to run amok through the world's financial markets? How could fraud on such a scale have escaped detection for so long? The result is bound to be another initiative to tighten international co-operation in supervising banks.

The BCCI collapse raises fundamental questions about the way in which global banks are regulated by national authorities. Indeed, one is bound to ask whether financial markets have not become so internationalised that the present segmented regulatory regime, loosely co-ordinated through a central bankers' club in Basel, any longer applies. This is by no means the first time that regulatory shortcomings have been exposed; indeed, all previous international initiatives in this area have occurred in the wake of financial calamities. The starting point was the collapse of Germany's Herstatt Bank in 1974, which led to the Basle Concordat in December 1975. This agreement, between the central bank governors of the main industrial countries (subsequently endorsed by other financial centres), introduced guidelines for the division of regulatory responsibilities between national authorities, one of the central principles being that the supervision of foreign banks should be the joint responsibility of parent and host authorities.

The collapse of Banco Ambrosiano's Luxembourg subsidiary in 1982 was the occasion of an unedifying dispute between the Luxembourg and Italian authorities, who both disclaimed responsibility for supervising the Luxembourg entity or holding company as it happens. Following the Ambrosiano affair an amended version of the Basle Concordat was signed in 1983.

The 1983 Concordat introduced two new regulatory principles. First, it sought to ensure the adequacy of supervisory standards within national jurisdictions by adopting a "dual key" approach in which parent and host authorities share the quality of each other's supervision. Second, it focused on consolidation, whereby the parent authority must supervise a bank's worldwide operations, including foreign subsidiaries.

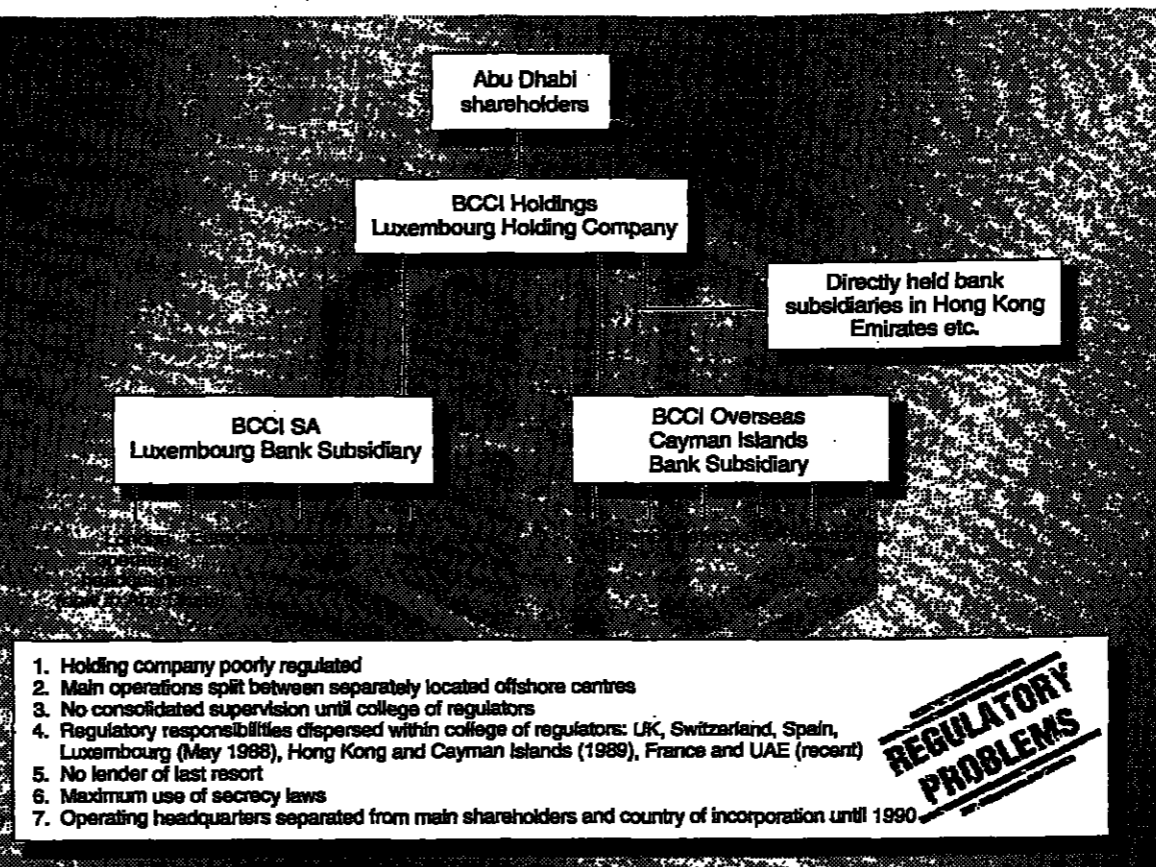
Under the dual key approach, if a host country considers that the supervision of parent institutions of foreign banks on its territory is inadequate it should prohibit or discourage the continued operation of such offices or alternatively impose specific conditions on the conduct of their business. In addition, if the parent authority considers that the host authority's supervision is inadequate it should "either extend its supervision, to the degree that is practicable, or it should be prepared to discourage the parent bank from continuing to operate the establishment in question".

In other words, each national supervisory authority must satisfy itself that banks' foreign operations are being conducted in jurisdictions with sound supervisory practices and that foreign banks to which it is host are subject to adequate supervision in their home jurisdiction. The intention was to reverse the tendency for banks to gravitate to the least-regulated jurisdictions with resulting "competition in regulatory laxity" between financial centres competing for foreign banking business.

This system should in theory ensure that supervisory standards are aligned on those of the most stringently regulated centres rather than vice versa. For that to happen, however, national authorities in the least banking centres must be prepared to lock out foreign banks originating

Richard Dale on the lessons for international bank regulators from the collapse of BCCI

Someone must be in charge



from permissive jurisdictions and prevent their own banks from conducting international operations in such locations. In the light of BCCI, it must be doubted whether this key element of the Basle framework is working.

The attempt to ensure adequacy of supervision is buttressed by the other significant innovation of the new Concordat - consolidated supervision. The Concordat states that "banking supervisory authorities cannot be fully satisfied about the soundness of individual banks unless they can examine the totality of each bank's business worldwide through the technique of consolidation". The idea is that overall supervision should be strengthened by having parent authorities supervise risks on the basis of banks' global operations. In what may now be viewed as a controversial provision, the Concordat allows for an exception to the consolidation principle. It states that "where holding companies are at the head of groups that include separately incorporated banks operating in different countries [a precise description of BCCI's corporate structure] the authorities responsible for supervising these banks should endeavour to co-ordinate their supervision of those banks, taking account of the overall structure of the bank in question".

BCCI may be viewed as a test case for the Basle Concordat since it appears to have been structured in a way that was intended to minimise regulatory constraints (see chart). This is an important aspect of the affair because it is precisely these banks that are seeking to avoid regulatory attention that need to be supervised most closely.

In the first place, the parent entity of BCCI is a Luxembourg holding company which escapes regulation under Luxembourg law because it is not classified as a bank. This state of affairs is in itself unsatisfactory, bearing in mind that the collapsed Bank Ambrosiano subsidiary had avoided regulation in Luxembourg for the same reason. Holding companies that own banks should be subject to rigorous supervision - as indeed they are in the US where the holding company

BCCI appears to have been structured in a manner that was intended to minimise regulatory constraints

structure is the norm.

Second, BCCI's banking operations are split between two main subsidiaries incorporated in different jurisdictions - Luxembourg and the Cayman Islands. This structure ruled out consolidated supervision and a college of regulators was therefore established in May 1988, initially consisting of Luxembourg, the UK, Switzerland and Spain. However, why was the college was not set up earlier? And why was the membership only gradually expanded ultimately to include Hong Kong, the Cayman Islands, France and the UAE? Finally it is far from clear that a dispersal of regulatory responsibilities among so many national authorities is a safe way of dealing with cases of this kind. Should not someone be in charge?

The fact that BCCI was permitted to establish itself and operate for so long within a faulty regulatory framework is surely a central issue in this affair. Once the bank had expanded to become a \$200m multinational institution the regulators faced an awesome choice between a disastrously costly closure and a risky reconstruction.

Furthermore, the closure option was far from straightforward. It was presumably necessary to secure broad agreement among the main regulators since any unilateral action by, say, the UK would have precipitated a disorderly collapse of the whole group. In addition, the Bank of England may have been hampered by the requirements of the 1987 Banking Act. This statute gives the Bank a broad discretion to withdraw authorisation from an institution (it is, for instance, unnecessary to prove fraud) but the procedure is cumbersome and includes a requirement to give notice to the institution concerned. That is hardly an appropriate mechanism where fraud is suspected, since the opportunity would be given to remove assets from the jurisdiction, thereby jeopardising the interests of depositors. The inadequacy of the de-authorisation procedure evidently forced the Bank of England to seek liquidation of BCCI, the grounds for which are much narrower and which in this instance require the proof of fraud.

In any event, the decision on whether or not to close a bank is a matter of judgment, and one not likely taken in a case such as this, where the chief shareholders are apparently willing to make good any

capital shortfall.

Indeed, so long as the problems are remediable the interests of depositors are best served by keeping the bank going while ensuring that corrective action is taken. Closure is appropriate only when fraud or other irregularities have infected the whole bank and cannot therefore be cleansed.

No doubt the inquiry announced last week by Mr Norman Lamont, the UK Chancellor, will be looking very carefully at the basis on which the closure decision was reached. But on the broader question of regulatory reform it is important to understand that we are talking here of international rather than specifically UK regulatory weaknesses.

The following issues in particular will need to be addressed:

● Are the informal and broadly drawn guidelines set out in the Basle Concordat an adequate basis for regulating international banks? Arguably, much tighter rules are needed, particularly as they relate to supervisory standards which vary considerably between financial centres.

This point is of particular concern with the approach of 1993, when banks incorporated in Luxembourg, for example, will be able to branch automatically into the UK, leaving the UK authorities with no say whatever in the matter. In this context, too, one must question the soundness of a regime in which offshore banking centres compete with one another by offering secrecy, and fiscal and regulatory inducements.

● The principle of consolidated supervision that was adopted in 1983 should be more rigorously enforced - particularly in relation to complex multinational banks where the opportunity for regulatory evasion is greatest. There should be no exceptions, even if that means the dismantling of existing structures.

● Every bank operating in international markets should have access to a lender of last resort in its country of origin. In the BCCI case - thanks to a smooth closure operation - this was not a critical factor but it is worth noting that if there had been a disorderly collapse things could have been very different. Because BCCI is largely a shell bank its sudden failure could have threatened the integrity of the US payments system, possibly forcing the US authorities to provide emergency support.

● The issue of fraud has to be confronted. In the BCCI case the Luxembourg authorities have been quoted as saying that their regulatory arrangements could not cope with fraud, money laundering and other criminal activity liable to gravitate to those financial centres which combine stringent secrecy laws with a weak regulatory environment. This is a complex area where there are no ready answers but regulators may have to become involved in regular on-site bank examinations.

● The procedures for closing and liquidating international banks should be examined. The BCCI closure was relatively clean but could have been delayed both by the absence of a lead regulator and by procedural difficulties. The liquidation is likely to take several years and will involve all manner of conflict of laws problems in many jurisdictions.

The failure of a bank, even a large bank, does not necessarily point to regulatory failure. But in the BCCI case there are ample grounds for believing that something has gone seriously wrong. What is clear is that a purely UK inquiry into regulatory shortcomings is not enough. What is required is an international commission of inquiry to investigate the whole question of financial regulation now that we have truly global banking and securities markets.

The author is Coopers & Lybrand professor of international banking at Southampton University and consultant editor, FT Financial Regulation Report

Neglected history

Is there anything left of Britain's late and long-remembered world leadership in developing the computerised machine-tool? Yes, says Curtis Sparkes, who has just won a PhD at the age of 86 for his study of the history of the electronically controlled manufacturing systems now known as machining centres. He says that the evidence of the UK's trail-blazing - in which he claims to have played a leading role - will soon be snapped up by the Japanese, who didn't jump on the computerised bandwagon until 20 years later.

The world's first numerically controlled machine-tool, he maintains, grew out of the somewhat drably named horizontal boring rig evolved in the 1920s and 30s by Lancashire company F.W. Kearns, which Sparkes joined as an engineering apprentice in 1919.

The tool played a full part in the Second World War, helping to make things military in India, Canada and Australia besides Britain. Then, with the war over, Kearns's engineers set out to take the design further. They eventually converted it to electronic control with the aid of a precision measuring system developed by the old British Thomson Houston company. The resulting technological wonder was bought by British United Shoe in Leicester in 1955.

It served well, too, for nearly two decades, its main inventor recalls, which makes what has happened to it since shameful. For in the mid-1970s the Leicester buyers donated it to the Manchester Museum where Sparkes says it still languishes in the dismantled form it arrived in, the curators never having bothered to put it back together.

Their lack of interest contrasts with attitudes in Japan. Indeed top machine-tool

OBSERVER

company Yamazaki has built a special hall in Tokyo to house a historical exhibition of computerised manufacturing systems, and has written to Sparkes asking where it might find an example of Britain's original invention.

"I hadn't decided whether to tell them," he adds. "But I suppose that now I've talked to you, they'll know anyway."

Purgatory over

Meanwhile, having served his purgatory, Japan's Toyoo Gyohken has descended to the Bank of Tokyo as an adviser. Being a former vice-minister of finance for international affairs, he had to wait two years before joining a Japanese financial institution. Even so, it has been known he'd go to the bank, and widely presumed he'd be its next chairman.

"Internationalisation" has been a popular word in Japan for the past few years, and Gyohken is seen as one of the most international of Japanese financial figures. At the ministry, he oversaw the liberalisation of the financial system, while part of his purgatory has been spent as a visiting professor at the US Princeton University.

His skills will be welcome at BOT whose charmed status as "Japan's foreign exchange bank" will not be enough to keep the profits flowing in coming years. And while the bank says his succession to the chairmanship next June is not yet decided, it concedes that "we cannot say it is not a possibility".

Ups and downs

It is hard to tell which is the more interesting point about Dreyfus Corporation's new chief economist Richard Hoy: his extraordinary track record in spotting economic



"He can't see you at the moment, he's eating his correspondence."

trends, or his unfortunate choice of employers during his 15-year stint on Wall Street. He has certainly made some brilliant investment calls over the years. He spotted the peak in long-term interest rates at the start of the 1980s and got the timing of the latest US recession right. On the other hand he has probably worked for more investment firms that have either gone out of business or gone bust than most of his peers.

Hutton, Bache, Becker, Drexel Burnham... Hoy's choice of employers down the years has been unusually accident-prone.

After Drexel's demise he seemed to have found a safer home when he joined the New York investment banking arm of Barclays BZW. Alas the parent soon lost one of its coveted Triple A credit ratings, closed its US equity broking business, and although Barclays wanted to keep Hoy, he was on the move again.

His latest port of call, US mutual fund giant Dreyfus, is a very solid institution. It has more than \$70bn of assets

under management and a good record of making money for its customers. But whether 48-year-old Hoy has finally beaten his run of bad luck, time alone will tell.

War games

When Keith Miles, finance director of fashion retailers Etam, accepted the honorary post of secretary general of the Slovenian Information office in London's Regent Street, he thought the main benefit would be the occasional cocktail party, not the odd Molotov cocktail.

Having married a Slovenian, he knew the country well, and was already being used as a part-time economic adviser by the local administration. However following the unrest in Yugoslavia, Miles has been catapulted into the political limelight with his face popping up everywhere from Sky TV to BBC's Newswatch. Worse still, his own company is under attack from a bunch of South Africans.

"We are fighting for our independence and do not want to be taken over by foreigners. Please get your tanks off my lawn", is his standard response to all queries these days. Happily, he tells me, he thinks he's winning on all fronts.

Rain check

While New York's recent rainfall has not quite matched Britain's, the Big Apple did suffer one sodden week that forced the cancellation of an open-air recital by Luciano Pavarotti in Central Park.

The organisers thought the day had been saved when the Metropolitan Opera rescheduled a performance of Don Giovanni - under covers - to fill the gap. But one ticket-holder was not so sure. On calling up to check what was happening, he was told that Pavarotti was off and Don Giovanni on instead. "To be as good as Pavarotti", the caller snarled.

FINANCIAL TIMES CONFERENCES 1991

VENTURE FORUM EUROPE '91

London - 2-4 October

This important Forum, co-sponsored by the Financial Times and Venture Economics, brings together a distinguished panel of industry experts from Europe and North America to debate the opportunities and challenges facing venture capitalists in an evolving, international market. Forum sessions will focus on strategies for an increasingly competitive environment, fund raising, deal structures, managing and marketing the venture company, portfolio management and corporate venturing programmes.

FINANCIAL REPORTING IN THE UK

London - 10 October

The Accounting Standards Board recently unveiled its agenda for reform and its plans to issue new edicts and proposals which will eventually lead to an overhaul of company balance sheets and profit and loss accounts. This Financial Times conference will provide a practical, independent forum to review drafts on the agenda for reform.

Speakers taking part include Professor David Tweedie, Chairman of the Accounting Standards Board; Mr Neville C Bain, Group Chief Executive, Coats Vytella Plc; Mr Nigel Stapleton, Chairman, Technical Committee of the 100 Group Finance Directors; Mr David Nash, Group Finance Director, Grand Metropolitan plc; Mr Graham Stacy, Director, Professional Standards, Price Waterhouse; Mr Richard Hannan, Executive Director, UBS Phillips & Drew and Mr James Cartwright, National Technical Partner, Robson Rhodes.

WORLD ELECTRICITY

London - 14 & 15 November

This high-level meeting, arranged in association with Power in Europe, will examine how the utilities are responding to the challenges of increased competition and growing environmental pressures and meeting demands for greater energy efficiency. Expert contributors will also review developments in a number of contrasting markets and assess future fuel sources.

The conference will be chaired by Sir Donald Miller, Scottish Power and Mr Michael Joughin, CBE, Scottish Hydro-Electric and speakers taking part include: Dr Ing Rolf Bishoff, RWE Energie; Mr Kurt Yeager, Electric Power Research Institute; Mr Togo Miwa, Tokyo Electric Power Company Inc; Mr Carl Erik Nyquist, Statens Vattenfall; Dr Sydney Gata, Zimbabwe Electricity Supply Authority; M. Pierre Lederer, Electricité de France; Mr Peter Mollay, Statoil and Mr Vaughan Williams, BHP Uth.

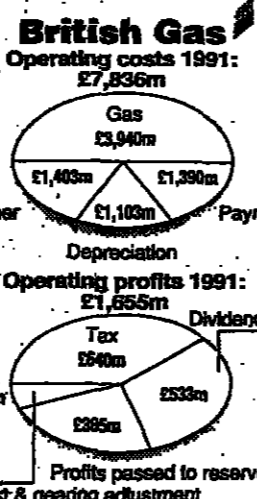
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Price row leaves everybody fuming

Deborah Hargreaves says British Gas could face legal action over higher charges for generators



JAMES MCKINNON



ROBERT EVANS

Now over the price of gas to power generators, the industry regulator, the Office of Gas Supply, has threatened to sue British Gas for a breach of its licence. The regulator says it has evidence that British Gas has been manipulating the gas market to keep prices high. It says that British Gas has been using its influence to ensure that gas is sold to power generators at a higher price than it is sold to other customers. This has led to a significant increase in the cost of electricity, which is a major concern for the public. The regulator is now considering legal action to force British Gas to comply with its licence conditions. It says that if British Gas does not agree to a settlement, it will have no choice but to take the case to court. The regulator is also considering other measures to protect consumers, such as introducing a new regulatory framework for the gas market. It says that this would ensure that gas is sold at a fair price and that the interests of consumers are protected. The regulator is now in talks with British Gas to reach a settlement. It says that it is confident that a fair agreement can be reached. However, it also says that it is prepared to take legal action if necessary. The regulator is now considering the next steps in the case. It says that it will be keeping the public informed of any developments. It also says that it will be working closely with other regulators to ensure that the gas market is fair and competitive. The regulator is now considering the next steps in the case. It says that it will be keeping the public informed of any developments. It also says that it will be working closely with other regulators to ensure that the gas market is fair and competitive.

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Robert Evans, a British Gas spokesman, says that the company is not manipulating the gas market. He says that British Gas is simply responding to the market. He says that the price of gas has increased because of a shortage of gas. He says that British Gas has no choice but to sell gas at a higher price. Evans says that British Gas is committed to providing a reliable and affordable gas supply. He says that British Gas will continue to work to improve the gas market. He says that British Gas will be keeping the public informed of any developments. He also says that British Gas will be working closely with other regulators to ensure that the gas market is fair and competitive. Evans is now considering the next steps in the case. He says that he will be keeping the public informed of any developments. He also says that he will be working closely with other regulators to ensure that the gas market is fair and competitive.

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market, and recently revealed plans to build a 1,200 Megawatt gas-fired station at Avonmouth near Bristol in conjunction with Midlands Electricity. Similarly, National Power wants to get into gas exploration and production. It was awarded two exploration blocks as part of a group of companies in the most recent North Sea licensing round. Some independents point to these respective ambitions as evidence of a growing strategic relationship between British Gas and National Power.

The Office of Electricity Regulation is now believed to be looking into the entire power generating issue with a view to deciding whether the large generating companies are abusing their huge market clout.

British Gas is trying to find a way out of the mess without recourse to the courts. Ofgas says it is pushing the utility to believe in a more entrepreneurial way. Mr McKinnon believes there is more gas available in the market than British Gas has so far admitted.

Indeed, British Gas is not sure that it wants to supply the power generators at all. British Gas did have to give very careful consideration before entering this market, Mr McKinnon says. "This is a high volume, inflexible business because it ties up gas for 15 years... so British Gas did not initially see itself as a major supplier in this market."

However, Ofgas points to the British Gas statute that requires it to respond to any reasonable request for gas as long as this is economically feasible. Ofgas does force British Gas to lower its prices, it will have to do so in a way that does not re-open the floodgates to huge demand and yet ensures that prices remain high enough to generate profits. This fine calculation is causing much anguish at the utility.

What the dispute certainly highlights is the government's lack of a clear energy strategy now that most main energy suppliers are in the private sector. Mr John Wakeham, energy secretary, has exerted pressure behind the scenes for British Gas to continue negotiating rather than resorting to litigation. But while the government is eager to see new generators competing in the electricity market, it seems reluctant to sanction gas imports from Norway which would enable them to do so.

If the row over gas prices degenerates into a complex round of lawsuits, it could have the important effect of pushing the government to reconsider its laissez-faire approach to energy.

Samuel Brittan

Liberalism from first principles



In the 1988 presidential election, George Bush made headway against his Democratic opponent by tarring him with the "I" word, liberal. By this he meant that he was looking for ways of increasing government control over matters which should be left to private citizens.

In Europe, by contrast, liberalism, although often used in many conflicting senses, still retains a shade of its classical sense of a doctrine about personal freedom, which is particularly relevant to countries emerging from centrally-regulated dictatorships. Democracy in the sense of majority voting is merely a convenient decision-making device unless part of a wider system of conventions and constraints, can itself be highly coercive.

It is therefore well worth studying a new attempt by Mr Anthony de Jasay to restate the principles of liberalism. De Jasay is dissatisfied with most modern attempts because they are too loose. Classical statements take the form that freedom is to be constrained only to protect the interest of others. But the nature of this qualifier is highly subjective; and even a strong anti-interventionist like Friedrich von Hayek finds it difficult to devise criteria which would rule out a Swedish-type welfare state in which 70 per cent of gross national product passes through government hands.

One writer, John Gray, faced with such difficulties, has abandoned liberalism in favour of a non-doctrinal conservatism which he hopes will support, not freedom in the abstract, but particular freedoms, e.g. from arbitrary arrest or from press censorship. But this is to throw in the towel. In my own book, I maintain that it is possible to state some precepts, such as non-paternalism, general rules, market remedies and a limited political sphere, which, although no fool-proof guide, are a good deal better than pretending to judge each issue on its merits.

Mr de Jasay, however, makes a brave attempt to present liberalism as a rigorous set of deductions from principles which are either self-evident, indisputable or at least make a strong appeal to intuition. He tries to get round the point that most liberals value not only freedom but other goals, such as peace and prosperity, by switching the emphasis from freedom to individual choice, which can comprise the latter. He has six principles: the first three he calls "axioms of choice", the final three "precepts of social co-existence".

1. *Individualism.* Only individuals can choose.
2. *Politics.* They can choose for themselves, for others, or both.
3. *Non-domination.* "The point of choosing is to take the preferred alternative."
4. *Contract.* Promises shall be kept.
5. *Priority.* "First come, first served."
6. *Exclusion.* All property is private.

By the first axiom he means roughly what Thatcher meant in saying that there is no such thing as society, only individuals and their families. There is nothing selfish or small-minded in basing politics on the choices of individual people, who alone can sympathise with, and help other individuals. Where Mrs Thatcher's vision fell short was that she did not see that if there was no society, there was no country or nation - notions to which she is so attached.

The second principle is a concession to the occasional need for collective coercion, which, unless it can be limited, jeopardises the other principles. The author has in previous works argued that many activities which most economists have considered to be public can be provided on a voluntary or market basis.

I suspect that the biggest weakness is in the fifth principle. This is meant to overcome the long-standing weakness of liberalism: the absence of a theory of just property rights. It is indeed more realistic than John Locke's theory about property being derived from labour or Robert Nozick's unexplained concept of just acquisition; and it sounds very robust when illustrated by the example of a 10-pound note belonging to the first person who picks it up. But it amounts to justifying any distribution of wealth which happens to exist. It is not appealing enough to provide the bar to collective redistribution which the author would like.

It is in the end impossible to judge the fruitfulness of these principles until their implications for particular instances have been elaborated. Nothing would do the author a greater injustice than to claim - as some Institute of Economic Affairs readers might - to accept his principles and then discuss mundane issues such as industrial training or trade policies in a way which completely flouts them.

Although I have learned a lot from de Jasay, I doubt whether an axiomatic approach to liberalism, or political theory in general will work. If I wanted to explain the characteristic virtues of liberalism to someone in eastern Europe or in a Latin country I would suggest yet another new book by the Brazilian JG Merquior. This last author takes an avowedly historical approach, and sees as the common feature among many different liberal thinkers the recognition of the rights granted by majorities to minorities. The statement may not be rigorous, but it takes in an awful lot. Liberals are not so thick on the ground that they can afford to confine recognition to the hand of an elect.

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A Conservative Disposition, Centre for Policy Studies, 1991.
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Liberalism: Old and New, DK Hall, Philadelphia, 1991.

LETTERS

Former Midland chief denies any bad debt provisions on arms sales or links with intelligence services

From Mr GW Taylor.

Sir, The article which the Financial Times published on July 15, "Midland operated secret defence offshoot", concerning Midland Bank and its trade finance activities was a mixture of the true, but trivial, and the misinterpreted, with a lot of complete nonsense.

I note that Midland has already responded. Nonetheless, I remain concerned at the severely exaggerated and misleading impression which your article gives about the group at a time when I was chief executive of Midland in September 1986 and retired and ceased to have any connection with the group in February 1987. This letter is written in my personal capacity.

The main concern of your reporters in talking to me appears to have been to find out if I remembered the names of three or four people. The names of three or four people who may have been employed as part-time advisers to one part of the group will be obvious to those who understand how a very large multinational business works. If I remember

correctly, the group worldwide employed something like 80,000 people at that time and as many as 1,000 people were employed full-time within the Midland International Trade Services (MITS) area. There were at least two layers of management between me as chief executive of the group and the head of MITS. It is simply nonsense to conclude that, because I did not recognise three or four names of those who may have been part-time employees some seven or eight years ago, this suggests, still less proves, a lack of management accountability.

I explained clearly to your reporters that the bad debt provisions created by MITS in 1983 had no connection with anything that could be described as arms sales. The provisions were mainly the result of the export of trade and consumer goods such as household appliances and electronic products from the US, the UK and Switzerland to a number of countries, particularly in Latin America which later experienced payment problems.

It is simply untrue to say that the losses in MITS were unknown to me and the senior

management of the group or that they were concealed from shareholders. The difficulties in MITS had already been mentioned by me in the 1982 annual reports and elsewhere.

You must surely agree that as a big British bank it was natural for Midland to be engaged in financing exports. I am pleased you acknowledge that one major customer at least, when asked, said that it and other UK companies found the support received from Midland to have been helpful.

Finally, your absurdly exaggerated suggestions of links of some kind between the intelligence services and Midland over the last couple of decades smack more of ingenuity than reality. I did not know at the time and I still do not know whether any of the people who worked for the group retained links of some kind with some part of the intelligence services. I hope they did not. The point is that, if they did, it does not justify the gross exaggerations contained in your article.

GW Taylor, The Mount, Parkfield, Cuckfield, Surrey KT2 0PW

A subsidy to stop the rot

From Mr Geoff Beeson.

Sir, In your July 19 leader you commented on the problems of long-term unemployment in Europe.

For many years I have been advocating the use of large, long-term labour subsidies for those whom unemployment affects most - the lower paid. Based on calculations from a simple mathematical model of the economy, I have suggested taxing the employment of capital and higher paid labour to finance these subsidies.

Europe seems quite happy to continue large-scale support for food production by means of an intervention price mechanism that takes lower value produce off the market. This, at least, has the possible benefit of creating a store for possible future lean years. In the labour market, however, the intervention price - the dole - takes labour off the market to let it rot and fester. Wouldn't a subsidy be so much better?

Geoff Beeson, 32 Bala Yn Street, York YO1 5AY

More inventive

From ASI Owensmith.

Sir, In your article, "Call For Technology Transfer" (July 15), the DTI is said to have estimated that about 90 per cent of the world's innovations come from Japan. It would be interesting to know how it arrived at such a conclusion, bearing in mind that - according to Japan's own Department of Information and Technology - of all the more worthwhile inventions since the Second World War, 52 per cent have been British, 23 per cent American and 6 per cent Japanese. I suggest the DTI spend more time promoting British technology in order to provide some inward cash flow as opposed to outward, as in the article referred to. However, I would not disagree with the implication that British companies in need of technology are thin.

ASI Owensmith, 67 Borough Heath Road, Epsom, Surrey

An insurance opportunity

From RM Bale.

Sir, Perhaps there will now be a market for the insurance of one's bank deposits. This would have two advantages:

1. The depositor would sleep at night;
2. Such an insurer would be motivated to do a better job of close contact regulation than appears to have been the case in the sad BCCI saga.

RM Bale, Roque Berg, St Clement, Jersey

Role of IBM and others in the Merlin programme

From AB Cleaver.

Sir, Your article "Helicopter contract lobbying stepped up" (July 16) on the Ministry of Defence's competition to find a prime contractor for the Merlin programme contains several statements which might mislead your readers.

The article implies that the company chosen as the prime contractor will assume responsibility for worldwide marketing. This is not true. The EH101 is developed and marketed by EH Industries (KTI), a company jointly owned by Westland and Agusta. It is for EH to market the EH101 not, as is suggested, for IBM, British Aerospace or GEC.

The article also speculates that the US government might seek to place restrictions on export sales because of prior US government funding of certain IBM software. The fact is that Merlin will use

advanced software which is already under development in the UK. It is specific to Merlin and does not rely on any existing IBM software.

As regards job prospects, the IBM proposal places well over 90 per cent of the business in the UK. There is essentially no US export content. It is envisaged that all the existing sub-contractors (including GEC-Avicionics, GEC-Sensors, GEC-Ferranti and Racal) will be retained. The net effect would be an increased workload for Westland's skilled engineering staff and the transfer to the UK of highly specialised expertise.

In conclusion, I would point out that IBM was invited to participate in the competition because of our proven expertise as demonstrated by our successful delivery of the US Navy's anti-submarine warfare helicopter on time, to price and to specification. We are com-

mitted to do the same for the Royal Navy.

AB Cleaver, chairman and chief executive, IBM (UK), Portsmouth, Hampshire

THIS NOTICE DOES NOT CONSTITUTE AN OFFER FOR SALE AND THE LOAN DESCRIBED BELOW IS NOT AVAILABLE FOR PURCHASE DIRECT FROM THE BANK OF ENGLAND. OFFICIAL LISTINGS IN THE LOAN AND INTERNATIONAL STOCK EXCHANGE ARE EXPECTED TO COMMENCE ON MONDAY, 22ND JULY 1991.

PARTICULARS OF AN ISSUE OF £1,000,000,000 9 per cent CONVERSION LOAN, 2011

SCHEDULE OF PAYMENTS

Amount paid on issue	£30.00 per cent
Amount payable on Monday, 19th August 1991	£30.00 per cent
Amount payable on Monday, 9th September 1991	£32.50 per cent
INTEREST PAYABLE HALF-YEARLY ON 12TH JANUARY AND 12TH JULY	

This Loan is an investment falling within Part II of the First Schedule to the Trustee Investments Act 1961, subject as regards securities payable to bearer to the provisions of Section 7 of the Trustee Act 1925. Application has been made to the Council of The International Stock Exchange for the Loan to be admitted to the Official List.

1. The whole of the above Loan has been issued to the Bank of England on 19th July 1991 at a price of £92.50 per cent. The amount paid on issue was £30.00 per cent, the amount payable on 19th August 1991 will be £30.00 per cent and the amount payable on 9th September 1991 will be £32.50 per cent.
2. The principal of and interest on the Loan will be chargeable on the National Loans Fund, with recourse to the Consolidated Fund of the United Kingdom.
3. The Loan will be repaid at par on 12th July 2011.
4. The Loan will be issued in the form of stock which will be registered at the Bank of England or at the Bank of Ireland, Belfast, and will be transferable, in multiples of one penny, by instrument in writing in accordance with the Stock Transfer Act 1963. Stock registered at the Bank of England held for the account of members of the Central Gilt Office (CGO) Service will also be transferable, in multiples of one penny, by exempt transfer in accordance with the Stock Transfer Act 1962 and the relevant subordinate legislation. Transfers will be free of stamp duty.
5. On or after 10th December 1991 stock may be exchanged into bonds to bearer which will be available in denominations of £100, £200, £500, £1,000 and £50,000. Bonds will be free of stamp duty.
6. Stock will be interchangeable with bonds without payment of any fee.
7. Interest will be payable half-yearly on 12th January and 12th July. The first interest payment will be made as on 12th January 1992 at the rate of £3.6680 per £100 of the Loan. Warrants for interest on stock to be transferred by post: income tax will be deducted from payments of more than £5 per annum. Interest on bonds to bearer, less income tax, will be paid by coupon.
8. Stock and bonds of this issue and the interest payable thereon will be exempt from all United Kingdom taxation, present or future, so long as it is shown that the stock or bonds are in the beneficial ownership of persons who are neither domiciled nor ordinarily resident in the United Kingdom of Great Britain and Northern Ireland.
9. Further, the interest payable on stock and bonds of this issue will be exempt from United Kingdom income tax, present or future, so long as it is shown that the stock or bonds are in the beneficial ownership of persons who are not ordinarily resident in the United Kingdom of Great Britain and Northern Ireland.
10. For the purposes of the preceding paragraphs, persons are not ordinarily resident in the United Kingdom if they are regarded as not ordinarily resident for the purposes of United Kingdom income tax.
11. Applications for exemption from United Kingdom income tax shall, in the case of interest on stock, be made in such form as may be required by the Commissioners of Inland Revenue. Bearer bond coupons will be paid without deduction of United Kingdom income tax if accompanied by a declaration of ownership in such form as may be required by the Commissioners of Inland Revenue. The appropriate forms may be obtained from the Inspector of Foreign Dividends, Inland Revenue, Lynnwood Road, Thames Ditton, Surrey, KT7 0DP.
12. These exemptions will not entitle a person to claim repayment of tax deducted from interest unless the claim to such exemption is made within the time limit provided for such claims under income tax law; under the provisions of the Taxes Management Act 1970, Section 43(1), no such claim will be outside this time limit if it is made within six years from the date on which the interest is payable. In addition, these exemptions will not apply so as to exclude the interest from any computation for taxation purposes of the profits of any trade or business carried on in the United Kingdom. Moreover, the allowance of the exemptions is subject to the provisions of any law, present or future, of the United Kingdom directed to preventing avoidance of taxation by persons domiciled, resident or ordinarily resident in the United Kingdom, and, in particular, the interest will not be exempt from income tax where, under any such provision, it falls to be treated for the purpose of the Income Tax Acts as income of any person resident or ordinarily resident in the United Kingdom.

13. Until payment in full has been made and a completed registration form submitted to the Bank of England, the Loan shall remain amounts held in the CGO Service for the account of members) will be represented by letters of allotment.

14. Payment in full may be made at any time prior to 8th September 1991 but no discount will be allowed on such payment. Interest may be charged on a day-to-day basis on any overdue amounts which may be accepted in a sum equal to the amount of the Loan Offered Rate for seven day deposits in sterling (LIBOR) plus 1 per cent per annum. Such rate will be determined by the Bank of England by reference to market quotations, on the due date for the relevant payment, for LIBOR obtained from such source or sources as the Bank of England shall consider appropriate. Interest in due payment of any amount in respect of the Loan will render the allotment of such Loan liable to cancellation and any amount previously paid liable to forfeiture.

15. Letters of allotment may be split into denominations of multiples of £100 on written request to the Bank of England, New Issues, Southgate House, Southgate Street, London EC1A 3UW received not later than 5th September 1991. Such requests must be signed and must be accompanied by the letters of allotment (but a letter cannot be split if any payment is overdue).

16. Members of the CGO Service may, subject to the provisions governing membership of that Service, surrender a partly-paid letter of allotment to the CGO for cancellation and for the amount of the Loan comprised therein to be credited to the member's account. The member who is shown by the accounts of the CGO as being entitled to any amount of the Loan shall, to the exclusion of all persons previously entitled to such Loan and any person claiming any entitlement thereto, both be treated as entitled to such Loan as if that member were the holder of a letter of allotment and be liable for the payment of any amount due in respect of such Loan. A member will be entitled at any time prior to registration to withdraw, in multiples of £100, amounts of the Loan credited to the member's account and to obtain a partly-paid letter of allotment completing such Loan, and such member shall be liable for the payment of all amounts becoming due thereafter in respect of such Loan unless and until that letter of allotment is surrendered to the CGO for cancellation as aforesaid.

17. Letters of allotment must be surrendered for registration, accompanied by a completed registration form, when the final instalment is paid, unless payment in full has been made before the due date, in which case they must be surrendered for registration not later than 5th September 1991; registration of amounts of the Loan held for the account of members of the CGO Service will be effected under separate arrangements.

18. Until the close of business on 10th December 1991, stock issued in accordance with this notice will be known as 9 per cent Conversion Loan, 2011 "A". The interest due as on 12th January 1992 will be paid separately on holdings of the existing 9 per cent Conversion Loan, 2011 and on holdings of "A" stock registered at the close of business on 10th December 1991; consequently, interest mandates, authorities for income tax exemption and other notifications recorded in respect of holdings of existing stock will not be applied to the payment of interest due as on 12th January 1992 on holdings of "A" stock.

19. Transfers of 9 per cent Conversion Loan, 2011 "A" may be lodged at the Bank of England for registration in that form up to 8th December 1991. After that date, for purposes of certification, the "A" stock will not be distinguished from the existing 9 per cent Conversion Loan, 2011. From the opening of business on 11th December 1991, the "A" stock will be amalgamated on the register with the existing stock. CGO account balances will have been amalgamated from the opening of business on 9th December 1991.

20. Copies of this notice may be obtained by post from the Bank of England, New Issues, Southgate House, Southgate Street, Gloucester, GL1 1UW; at the Central Gilt Office, Bank of England, 1 Bank Buildings, Princes Street, London, EC2R 3EL or at any of the Branches or Agencies of the Bank of England; at the Bank of Ireland, Moynagh House, 1st Floor, 20 Colander Street, Dublin, BT1 5BN; or at any office of The International Stock Exchange in the United Kingdom.

Government Statement

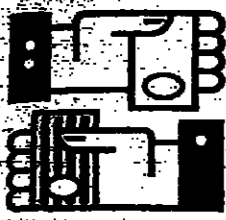
Attention is drawn to the statement issued by Her Majesty's Treasury on 25th May 1985 which explained that, in the interest of the orderly conduct of fiscal policy, neither Her Majesty's Government nor the Bank of England or their respective servants or agents undertake to disclose tax changes decided on but not yet announced, even where they may significantly affect the terms on which, or the conditions under which, the Loan is issued or sold by or on behalf of the Government or the Bank; that no responsibility can therefore be accepted for any omission to make such disclosure; and that such omission shall neither render any transaction liable to be set aside nor give rise to any claim for compensation.

BANK OF ENGLAND
LONDON
19th July 1991

INTERNATIONAL CAPITAL MARKETS

SECTION III

Monday July 22 1991



A huge drop in the flow of Japanese capital means that hungry companies and nations must be

weaned off Tokyo's money — at a time when savings around the world are in short supply. Financial institutions face a new round of changes. Richard Waters reports

Reforms are long overdue

ITS DEMISE was as sudden as its emergence. The flow of Japanese capital, which had driven international financial markets for much of the 1980s, was largely turned off last year. After the years of plenty, capital markets had entered the new decade with a bump.

The scale of the turnaround has been significant. Investments in foreign bonds and equities by the Japanese fell to just \$40bn in 1990, from \$118bn the year before.

At the same time, Japanese banks' share of new international bank lending (in dollar terms) dropped from 36 per cent to 19 per cent.

Leaving aside the effects of exchange rates, new lending by Japanese banks was only one third its level of the previous year.

Forces which had helped to keep securities prices up and loan costs down had suddenly been removed.

Two factors lie behind this sudden shift. First, high Japanese interest rates made US Treasury bonds less attractive to Japanese investors.

Second, the reverberations of the 1990 Tokyo stock market fall — and its effect on the capital of Japanese banks and the resources of Japanese investors — are still likely to be felt for some time to come, even if Japanese share prices fall no lower.

The growing propensity of the Japanese to spend more and save less, as well as just to get older, also means that Japanese savings will become a less powerful force in the world financial markets.

Weaning capital-hungry nations (and companies) off Japanese money will not be easy — particularly at a time when savings around the world are in short supply.

For 30 years, savings rates have fallen in most developed countries.

The British and Americans are famous for their inability to save. In the UK during the 1980s, net savings amounted to 5.5 per cent of national income; half the proportion of the 1960s. In the US, the fall was steeper, from 11 per cent in the 1960s to just 4 per cent.

This trend was echoed elsewhere in different degrees. The Germans, who put aside 20 per cent of their income during the 1960s, managed to save only 11.5 per cent during the 1980s. The Japanese savings rate fell from 25.2 per cent to 20.9 per cent over the same period.

The demand for capital,

meanwhile, is set to increase. New investment in Eastern Europe, the rebuilding of Kuwait, the continuing needs of developing countries, and investment by companies as the US and UK come out of recession — all point to a strong demand for capital in the medium term.

One other factor has made investment capital more difficult to come by. Banks around the world, but particularly in the US, are smarting from the knocks they have taken on real estate lending and highly secured transactions.

At the same time, they are working towards the full implementation by 1993 of the minimum capital adequacy standards laid down by the grouping of central bankers meeting under the auspices of the Bank for International Settlements in Basel.

The result: claims of a "credit crunch" as any but top-grade borrowers find it increasingly difficult to raise money from their bankers.

In the longer term, the capital adequacy rules are unlikely to affect the supply of good credit.

As the BIS says in its latest annual report last month: "There may indeed now be a greater awareness of the capital ratio implications of portfolio decisions, but that is precisely what was needed."

It could lead to longer-term problems of credit availability only if circumstances were to deny a large number of banks access to additional capital, which is only conceivable if bank profits remain under a prolonged period.

Such statements, however, will give little comfort to bank customers which need credit now if they are to have any kind of long term future to look forward to.

As implied in the BIS's report, the financial industry itself is set for a prolonged period of consolidation. During

the 1980s, deregulation and the ready availability of credit led to a drive by financial intermediaries for growth and market share. Now, attention has switched to profitability and consolidation.

Profitability in both the banking and securities industries is in serious need of repair.

The return on assets of US banks in 1990, for example, halved to 0.78 per cent (excluding the effects of provisions against bad loans). Japan's city banks, meanwhile, experienced a decline from 0.82 per cent to 0.58 per cent.

Two months ago, Mr Gerald Corrigan, president of the Federal Reserve Bank of New York, told the US senate committee on banking, housing and urban affairs: "Whether we like it or not, we are going to see an important degree of consolidation in the US banking and financial system. That result, as I am prone to say, is already baked in the cake."

Several weeks later, the biggest planned banking merger in recent US history was announced: the combination of Chemical Bank and Manufacturers Hanover to create the country's second largest banking group.

In Japan, such mergers have been underway for longer, since the creation of Dai-ichi Kangyo Bank, the country's largest.

In the securities industry, the damage to recent profits has been greater. Japan's big four brokers suffered falls in pre-tax profits last year ranging from 52 per cent (Nomura) to 72 per cent (Nikko).

New York Stock Exchange members slipped to a combined \$128m loss, their worst performance since 1973 and members of the London Stock Exchange sustained a combined loss of \$30m.

While this year has brought better news, the continuing uncertainty in securities markets and few outright with-

drawals by securities houses suggests that further cost cutting and redundancies will follow.

As they recover from the deregulation and excesses of the 1980s, meanwhile, many financial institutions can look forward (if that is the right phrase) to a new round of change.

In both the US and Japan, long-awaited initiatives have been launched which could lead to the ending of divisions between the banking and securities industries.

In both countries, commercial banks have been allowed progressively into the securities business, through the establishment of full-service securities subsidiaries abroad and the admission to restricted classes of securities business at home.

The final step will be the biggest: allowing commercial banks into the underwriting and brokering of domestic issues — although even here, the barriers have started to come down.

Neither country looks likely to move rapidly towards reform of their respective laws, despite the pleas of reformers. Mr Corrigan of the Fed has argued that the future competitiveness of the US banking and financial system depends on "the necessary process of consolidation, cost reduction, and diversification."

The recent financial scandals which have afflicted Japan's leading stockbroking firms also point to the need for deep-seated reform of that country's financial system. The display of public remorse that accompanied the admitted links with gangsters and the compensating of favoured clients for stock losses suggested that the Japanese brokers were keen to change their ways.

It remains to be seen whether anything has changed — or whether it will take more profound structural developments in Japan, such as the ending of minimum commissions and the development of a strong, independent fund management industry, to bring about lasting change.

To quote Mr Corrigan, commenting on the US: "Prompt and comprehensive reform of the banking and financial system is long overdue."

IN THIS SURVEY

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■ **New technology:** With the move towards electronic market places, the trading floor — spiritual home of the capital markets — may not outlive the decade. Page 2

■ **International markets:** Companies worldwide have turned to the equity markets again to raise new capital as global financial markets regained some stability after the Gulf war. Page 2

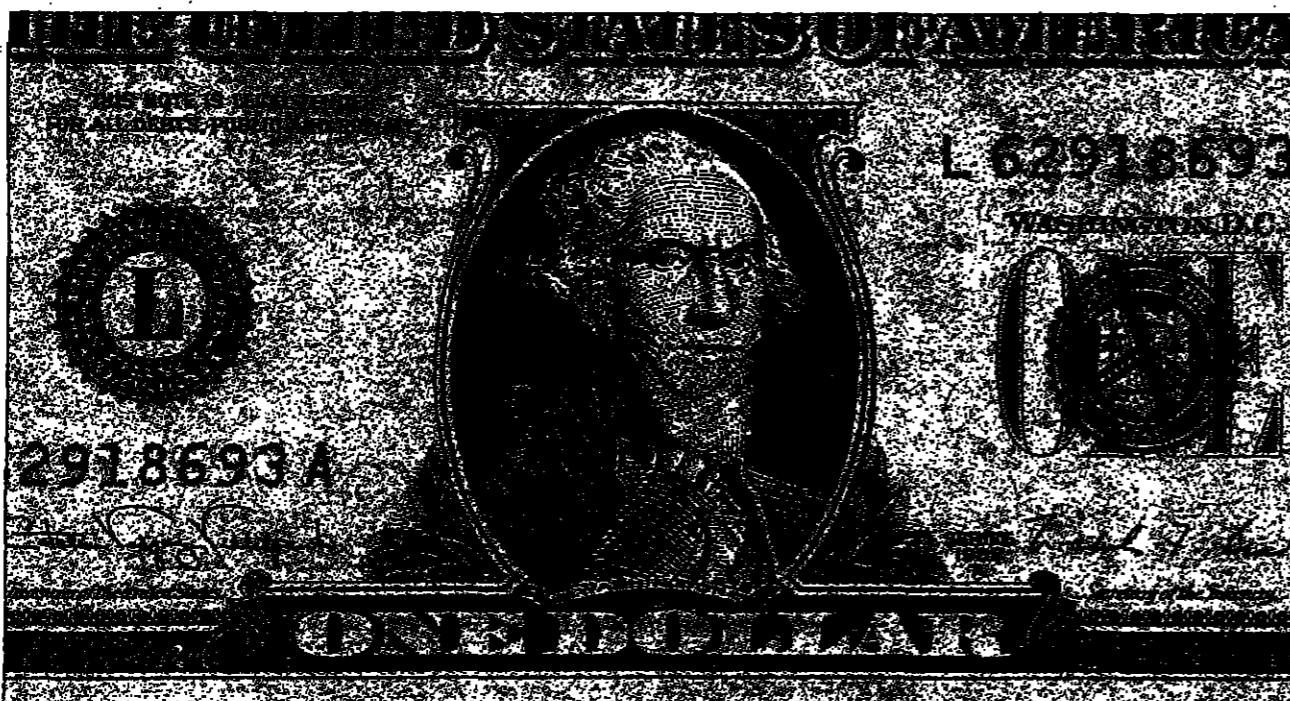
■ **Derivatives:** As derivatives have become more common, competition among the exchanges that trade them has grown. The competition has also spawned co-operative alliances. Page 3

■ **Regulation:** Everyone agrees on the need for greater international co-ordination to guard against a systemic collapse in securities markets. But finding an international framework is not easy. Page 4

■ **Securitisation:** European securitisation is a market much tipped for growth, but the surge of activity predicted by proponents of the market has yet to materialise. Page 4

■ **Emerging markets:** While the stock markets of the developed world have stagnated, many emerging markets are forging ahead. Page 5

■ **Editorial production:** Phil Sanders



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Mecidiyeköy - Mecidiyeköy Cad. 35
Pınarhisar 80040
İstanbul-Türkiye
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Fax: (1) 149 65 68
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INTERNATIONAL CAPITAL MARKETS 2

Richard Waters looks at the implications of new technology

Farewell to the trading floor as markets plan automation

INTERNATIONAL markets are disembodied markets. The result, as capital has become more international is a move towards electronic market places to bring together providers and users of investment money. The spiritual home of the capital markets – the trading floor – may not outlive the decade.

On both sides of the Atlantic, market automation is being planned on a large scale. It is both defensive and aggressive. Old trading practices, subjected to competition for the first time, are being over-

Europe already has an international equity marketplace. Ironically, it is among the most low-tech of all capital markets

hailed.

New opportunities, as companies seek to raise money internationally (and investors to invest it), are being exploited.

Europe already has an international equity marketplace. Ironically, it is among the most low-tech of all capital markets

The UK's telephone-based share market, supported by the Seag International price display system, traded £147bn of foreign equities last year, up from £85bn the year before and £40bn in 1988. These figures exaggerate the real growth rate: market users did not have to report trades to the London Stock Exchange until two years ago. About two thirds of the turnover is related to European stocks.

Seag International may have attracted business, but it is not the final word in cross-border, automated dealing.

The system, launched on a shoestring budget six years ago, needs a complete revamp. It also needs to offer its users more than simply a view of quoted prices of other market users – for example trade confirmation and links into cross-border settlement arrangements.

If Seag International has

offered Europe a vision of the future shape of the cross-border equity markets, then continental Europe has seemed very slow to pick up on the idea.

The progress towards economic and monetary union, and the abolition of trading and other barriers within the EC, suggests that equity investors will come to view the Community as a single investment market. National bourses have so far failed to agree on a single trading infrastructure to support this market.

In part, this is because the idea is before its time. Market users are not yet demanding a better international marketplace.

Some sophisticated fund managers and brokers actually prefer fragmented, inefficient markets: it gives them more of a chance to make a living, using their skills to pick out the investment and arbitrage opportunities others miss.

As long as they can pass on the extra costs of doing business internationally through specific charges to their customers (as many fund managers do), there is little pressure on them to demand a better market infrastructure.

Another powerful force against co-operation between national markets has been the

The US faces similar upheaval to Europe as its stock markets take on domestic and international competition

competing ambitions of different European financial centres. For 18 months, talk of co-operation veiled only thinly the competition that has really been driving market developments.

When joint venture talks between the national bourses were put back to square one this summer, it was no surprise to find national stock market initiatives emerging rapidly to fill the vacuum. The likely result: trading floors, where they still exist, will be superseded by electronic

marketplaces.

Within recent weeks, the Frankfurt Stock Exchange announced an initiative to bring together the federal German exchanges under one national bourse, with a new infrastructure to support the market.

In Paris, French stock market professionals have been pressing for an overhaul of trading practices to help their bourse compete internationally.

And in London, a strategic rethink of the national stock market is near completion.

The New York Stock Exchange and American Stock Exchange have moved towards opening for longer hours

Grand talk of international co-operation and harmony is unlikely to recur for some time.

If the development of a pan-European market infrastructure has come to nothing, then the same is true of a plan to link the trading markets of Europe and the US, courtesy of the London Stock Exchange and the National Association of Securities Dealers (NASD).

The NASD's quote-driven market, Nasdaq, was the model for London's Seag system, and both are now in need of rebuilding. However, talks on co-operation to develop a common technological base – perhaps leading to a joint international equity market – fell through this spring.

The US faces similar upheaval to Europe as its stock markets take on the challenge of competition, both domestic and international. The battle is being fought in two ways.

In the short-term, the US trading day is being extended – electronically – by floor-based exchanges which fear they are losing ground to competing electronic markets.

Both the New York Stock Exchange and American Stock Exchange have moved towards opening earlier in the day and

closing later. The extra business they hope to win will not be channelled through specialists, the people who oil the wheels of the floor-based trading mechanisms, but will be managed electronically.

In the longer term, both markets – and the NASD – plan to open throughout the European trading day. Full-scale, 24-hour trading without the use of market floors is on the horizon. If these initiatives are a success – and offer cheap, efficient dealing for investors – what future can there be for the trading floors during the US trading day?

The increased competition between equity markets is mirrored in derivative markets. The result, predictably, has been the same: a plethora of grand plans for 24-hour electronic trading systems. Many may never be built, or will fail to generate enough business to justify their investment. But the pace of development seems unstoppable.

It is too early to say whether these developments will work to the advantage of market users. To the extent that they create new opportunities for raising money or investing it more effectively, they will be welcome. But they also present new problems for regulators which are a long way from being solved.

For a start, fans of floor-based markets complain, trading floors provide the best possible price-setting mechanisms, which cannot be replicated electronically.

That may have been true as long as trading floors remained the centre of trading activity, helping to concentrate orders and so achieve the best prices for investors. But with an increasing amount of business done off-exchange, the argument for trading floors is weakened.

A second (and more telling) complaint is that the multiplication of electronic trading systems, and the lack of transparency in some markets, makes it difficult to ensure that investors get the best deal – particularly small investors. Regulators are only beginning to grapple with this problem.



Traders at the Tokyo stock exchange: international investors have a growing number of government bond markets

GOVERNMENT BOND MARKETS

International investors find a silver lining

INTERNATIONAL investors have benefited from recent developments in the global government bond markets for two reasons. First, as the tentacles of deregulation have spread around the globe, international investors have found it easier to invest in a growing number of government bond markets.

Secondly, bondholders recognise that there is a silver lining to a recession as interest rates are cut in order to stimulate the economy. Bond prices rise as interest rates fall, thus providing investors with capital gains.

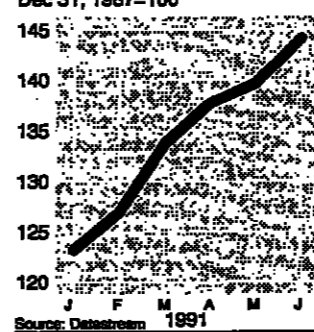
After Iraq's invasion of Kuwait last August, the sharp rise in the oil price prompted fears that inflation in the western economies would rise. Bond prices rose and long-term yields increased by between 50 and 150 basis points for the main bond markets.

However, the fears proved short-lived. Interest rates remained stable during the fourth quarter in Germany and Switzerland, eased in Belgium and France, and fell sharply in the US, Japan and UK. The Bank for International Settlements in its 61st annual report.

The fall in interest rates continued in the first quarter of this year and many of the leading industrialised countries have emphasised the need to lower interest rates further. However, Germany remains the odd man out. When representatives of the Group of Seven leading industrialised countries met in Washington in April, the US put considerable pressure on Germany to

J P Morgan Government Bond Index

Dec 31, 1987=100



Source: Datastream 1991

cut interest rates as soon as possible. Unfortunately, rising inflation in Germany has led to concern that the Bundesbank may be forced to raise interest rates, or at least to hold interest rates at a high level until inflation starts to fall.

Germany aside, the other members of the Group of Seven main industrial countries emphasised the need to lower real interest rates and promote world growth at the Washington meeting and this trend seems likely to continue, albeit at a slower rate.

Even Japan, which has held interest rates at historically high levels in order to curb inflation, cut the Official Discount Rate from 6 per cent to 5.5 per cent at the beginning of July.

The fall in interest rates over the past nine to 12 months has led to a surge in certain bond markets, providing international investors with capital gains on their bond portfolios. Today, those bond portfolios

are likely to consist of a far broader range of securities as more government bond markets have opened up and courted foreign buyers.

For example, both Spain and Italy deliberately increased their appeal to foreign buyers by extending their debt maturity profiles and easing procedures for foreigners to reclaim withholding tax on government bonds.

These are important changes: foreign investors like to be able to invest in long-dated bonds and to receive the income gross rather than net of withholding tax. In many cases they had been deterred from participating in the Spanish and Italian bond markets because the rules governing the reimbursement of withholding tax to non-resident investors were complicated and lengthy.

Investors have been attracted to both the Italian and Spanish bond markets in the past nine to 12 months because of their high yields. These have fallen as interest rates have come down, but are expected to fall further.

Many international investors have been piling into the high-yielding European bond markets because they expect to see the convergence of interest rates in Europe for those currencies which are members of the Exchange Rate Mechanism of the European Monetary System.

In the long term, monetary ties within Europe are expected to force bond yields towards those of Germany, the mainstay of the European monetary system.

The attraction of investing in a currency which is in the exchange rate mechanism of the EMS is that the exchange rate risk for a European investor is greatly reduced, while the investor can still expect to see bond yields fall and make a capital gain on the investment.

However, the convergence argument has its problems – short-term movements in the opposite direction do occur, as was seen recently in France. There, worries about the appointment of Mrs Edith Cresson as prime minister unsettled the bond market and led to a sharp rise in French government bond yields.

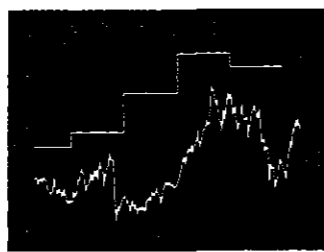
Investors have been attracted to both the Italian and Spanish bond markets

As more and more government bond markets have opened up to foreign investors, the demand for detailed research has increased: now investors as diverse as Japanese bond fund managers and European pension fund managers want research on markets including Spain, Italy, Scandinavia, Portugal, Belgium and even such underdeveloped markets as Greece.

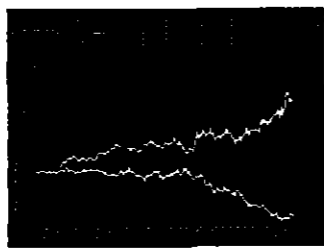
With these second-tier countries, investors try to take advantage of the market's inefficiency when it comes to taking economic and financial data into account. The hunt for high-yielding markets continues.

Sara Webb

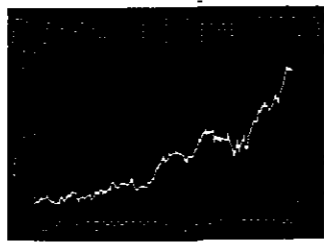
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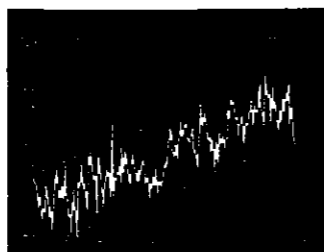
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Tracy Corrigan examines the growth of the Ecu bond market

European governments help transformation

THE Ecu bond market has grown from a small retail-based market, driven by swap opportunities, to a widely-traded institutional market which may be set to become the largest European debt market later this decade.

In the past 10 years, the outstanding amount of Ecu bonds has grown from Ecu250m to Ecu700bn, according to JP Morgan. Secondary market turnover through the European clearing houses Cedel and Euroclear reached nearly Ecu100bn in March. In the first six months of this year, the volume of new issues in the sector rose to more than £21bn equivalent – more than double the volume during the first half of last year – to become the second most active currency sector in the Eurobond market.

European governments, keen to demonstrate their political commitment to the currency, have been a catalyst for the market's transformation.

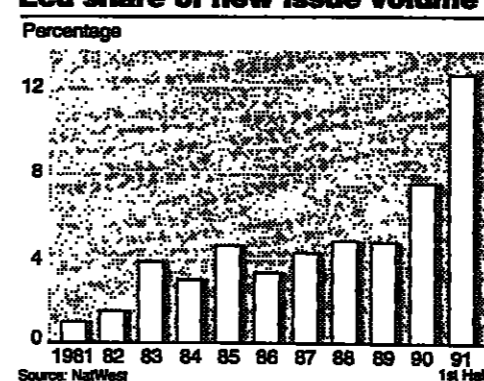
The US government made a successful debut £2.5bn issue in February. France, Italy, Belgium, Denmark, Finland, Norway, Sweden, Spain, Greece, and supranational institutions such as the European Community and the European Investment Bank, have all tapped the Ecu bond market.

Many deals were not swapped, as swap market rates were not favourable, and most issuers are borrowing in Ecu more for political than practical reasons.

In the past, most borrowers had no requirement for Ecu funds, but they were able to swap Ecu funding into another currency at attractive rates – often through swaps generated by the Italian government's domestic Ecu issuance.

Such sovereign and supranational borrowers command a broader audience for their transactions because they are strong credits and issue in large volumes. Central banks

Ecu share of new issue volume



Source: NatWest

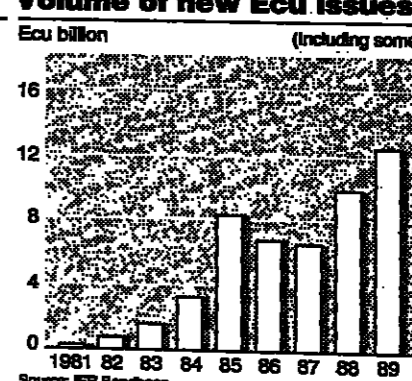
have become important holders of Ecu paper. But the growth of the market has been outstripped by the eagerness of banks to take a share of the action: the sector is already overbooked. The Association of International Bond Dealers says the number of reporting dealers in Ecu Eurobonds has grown from 24 a year ago to 36 currently.

This rush for business may appear surprising, considering the widespread awareness that profitability will be hard to achieve. But many firms view the market as one where they cannot afford not to have a presence, because of its economic and political significance if European monetary union goes ahead.

Bankers say that to gain a substantial presence at this stage of the market's development would require a very big commitment. But several of these houses are market makers in name only: about 15 houses are consistently active, while the rest tend to remain on the sidelines. The new issues market is dominated by fewer than 10 houses.

Some houses may be able to find some profitable niche business. For example, most Japanese houses appear to be concentrating on distribution of Ecu products in the Far East. But dealers say that several of

Volume of new Ecu issues



Source: FRB/Boston

the Japanese houses which rushed to seize a piece of the action are now making time. Nevertheless, liquidity has advanced dramatically and benchmark issues for the UK, the EIB and Italy, as well as the French government's Ecu Obligations Assimilables du Trésor (OATs) are extremely liquid, and can be used for "repos" (repurchase agreements, used for short-term borrowing and lending to cover positions).

Such issues trade on a 10-basis point spread between bid and offer prices in a deal such as the UK's Ecu2.5bn issue, trades of Ecu25m can be conducted on a 5-basis point spread, dealers said.

But the market has been relatively quiet in recent weeks as the Ecu bond market looks quite expensive, in spread terms, against the French and German bond markets.

The market also appears costly against the synthetic yield curve – calculated by studying the yields of component currency bond markets. Dealers can create exposure to the Ecu synthetically, by buying component markets.

Ecu bond futures contracts are now traded on two European exchanges; the Matif in Paris and Life in London. The Matif gained a competitive advantage by launching its

contract at the end of last year, ahead of Life's contract which started in March. The Matif traded an average of 2,700 contracts daily in June, compared with 400 contracts on Life (but the Life contracts are twice as large).

The growth of derivative products in Ecu has helped boost liquidity, providing sophisticated tools in a market which has historically been difficult to hedge.

Life also has a three-month Ecu contract which traded an average 713 contracts daily in June. In the over-the-counter market, there are forward rate agreements in Ecu.

Activity in Ecu money markets has expanded substantially in the past year. Interbank deposits ranging from overnight to 12-months, and CD rates are quoted by big banks, and the UK and Italian governments issue T-bills.

Paribas and JP Morgan each have an index of liquid Ecu bond issues which portfolio managers can use to measure the performance of the market, and also as the basis for index warrants and other products.

The formidable growth of the Ecu bond market has prompted many fund managers to hold increasing portions of their portfolios in Ecu, so the need for tools to measure their performance is increasing.

INTERNATIONAL CAPITAL MARKETS 4

■ SECURITISATION

Surge of activity yet to materialise

EUROPEAN securitisation is a market much tipped for growth, but the surge of activity predicted by proponents of the market for several years has yet to materialise.

In the US, there are trillions of dollars of mortgage-backed and asset-backed bonds, but Europe's largest market is the £100bn market in sterling mortgage-backed securities.

Economic pressures are forcing European companies, especially financial institutions, to focus on balance sheet structure. Securitisation allows the removal of assets from an issuer's balance sheet, as assets are repackaged and sold to investors in the form of bonds.

The need to meet new capital requirements is forcing economic pressures are forcing European companies to focus on balance sheet structure.

banks in particular to look closely at securitisation. Increasing competition in the financial services area is also obliging firms to focus on key businesses, and when necessary to sell off assets in other areas. But economic forces are not yet proving sufficiently strong to overcome the reluctance of many potential issuers to undertake securitisation. And in several countries where banks are poorly capitalised, there is not yet an adequate legal structure for securitisation. This is true of both Spain and Italy where there is strong interest in securitisation.

In Japan, where a weak stock market has devalued the capital held by many financial institutions, the Ministry of Finance is widely expected to liberalise the financial markets in order to pave the way for securitisation.

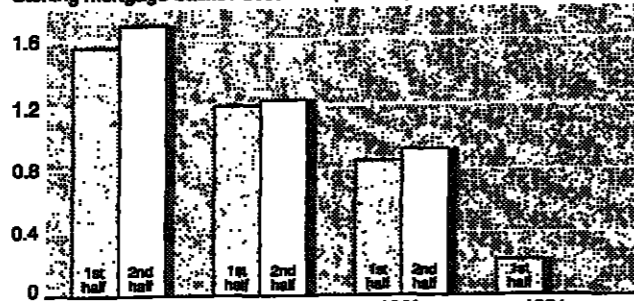
In France, where a "titrisation" law was passed in 1988 to provide a legal framework for securitisation, fewer than 20 deals have been launched. So far, most bond issues have been backed by loans, and placed with domestic institutions.

It is generally agreed that the structure of the law has allowed some less-than-genuine securitisation (for example, bonds backed by a single loan) and restricted an important sector of the market, the credit card receivables market.

The French Treasury is close to deciding how to reduce constraints on securitisation in France. French bankers have been lobbying for the removal of the two-year minimum maturity to allow securitisation of credit card receivables, believed to be crucial to the market's growth. Substitution of assets is likely to be allowed. Securitisation is unlikely to take off in Germany where

Issue volume

Sterling mortgage-backed securities (£ billion)



Source: Euromoney

Banks are well capitalised and can access fresh capital rapidly. But the first German deal appeared last year, a DM250m private placement backed by consumer loans originated by KKB Bank, a Citibank subsidiary.

The deal was approved by the Bundesbank, but securitisation remains a politically sensitive issue in Germany and public offerings of such debt are not likely to be permitted.

Smaller European markets such as Belgium and Ireland are in the process of passing legislation to facilitate securitisation. In Belgium, securitisation of loans is expected to be possible before the end of the year.

The Swedish mortgage market is particularly suited to securitisation because mortgages are of short duration and

Economic recession caused the rate of mortgage defaults to rise substantially, unsettling investors

cannot be prepaid. The first Swedish mortgage-backed deal - and the first in Europe outside the UK - was launched by a subsidiary of Skandinaviska Enskilda Banken, the Swedish bank, at the end of last year.

Meanwhile, the promising UK mortgage-backed market has survived a difficult period.

Economic recession caused the rate of mortgage defaults to rise substantially, unsettling investors and causing margins on mortgage-backed securities to widen substantially at the end of last year.

The final blow came in January when the Bank of England said that UK banks would probably have to set aside more capital against holdings of mortgage-backed securities.

Under European Community legislation, the securities would have to carry a 100 per cent risk weighting under capital adequacy guidelines from January 1992, rather than a 50 per cent weighting - effectively doubling the amount of capital that banks are required to hold from that date.

However, some investors decided that the market offered good value at these wider margins and started buying again, and the market has since recovered substantially.

Tracy Corrigan

Tracy Corrigan examines the risk management business

Attractive profit margins continue

THE recent £150m loss sustained by Allied-Lyons through its ill-conceived use of derivative products in the foreign exchange market may have deterred some companies from investigating the benefits of such instruments.

The Hammonds and Fulham swaps case, which could leave banks out of pocket to the tune of \$500m, may have encouraged banks to be more selective about their counterparties.

But the derivatives business is booming, and banks are competing fiercely for business in a market which still offers attractive profit margins.

The internationalisation of business during the past 10 years has increased the exposure of large companies to the vagaries of financial markets.

Currency exposure is no longer a concern only for exporters and importers. Most large UK companies, for example, now have some operations abroad, and the translation of foreign earnings back into sterling has become a crucial concern. Foreign exchange exposure is no longer accepted as a valid excuse for losses or declining profits.

Consequently, many corporate treasurers have become sophisticated users of derivative products in order to offset currency and interest rate risk. Competition among banks for a share of this lucrative market has fuelled innovation and reduced costs.

Derivative products allow companies to fix costs and income flows in advance, which is particularly valuable when recession is biting into margins.

"Once we've set a budget for the year, we like to take as much of the currency risk out as possible," explained Mr Keith Hamill, director of financial control in any given company.

The UK brewer estimates that it will have foreign currency exposure of about £700m this year. "Our policy is

not to speculate. We use hedging to create predictable cashflows and profits," he added.

There are several markets for hedging foreign currency exposure: the forward market, where companies buy or sell currencies for future settlement and the options market, where the holder can buy or sell a currency at a set rate. Unlike futures contracts, options give the purchaser the right, rather than the obligation to buy or sell. This means that a treasurer can use an option as insurance against adverse changes, but leave it to expire if such protection proves unnecessary.

The technology surrounding straight-forward currency options has become widely understood, and such options are now considered to be "commodity" products, for which high premiums can no longer be charged.

But new, sophisticated products designed to suit the individual requirements of a company's circumstances are becoming more widely used. For example, the "range forward" is a forward contract which allows a company to set an upper and lower limit on an exchange rate. The advantage is that it allows a company, which thinks a currency is set to rise but requires some downside protection, to keep some of the benefit if the currency does improve (unlike an ordinary forward contract). At the same time, banks do not charge an upfront premium (as they do for options).

A "participating forward" combines features of forward contracts and options, but there is no upfront premium. There is a set floor, as for an option, but there is also some participation in any gains - perhaps 50 per cent of the benefit is received by the company while the other 50 per cent is surrendered to the bank.

Another type of structure is the "average-rate" option, which gives holders the right to buy or sell an underlying market at the average price over the duration of the option.

In addition to hedging their revenues against exposure to currency movements, corporate treasurers also have to match their income with their liabilities. In the area of debt management, a greater range of exchange-traded products is used than in the largely over-the-counter market for foreign exchange derivatives. Futures contracts in many of the world's government bond markets are actively traded on

The swaps market, with a notional value of \$3,000bn worldwide, is widely used by corporate treasurers

It allows them to borrow funds in one market and then swap the proceeds into another currency, or from fixed-rate to floating-rate (or vice versa) interest obligations, by exchanging flows with a counterparty. This allows companies to take advantage of opportunities in foreign currency markets where attractive swap rates may allow them to achieve funding at substantially cheaper levels than in their domestic market.

There may be two legs to a swap - a currency and an interest rate leg - but the final cost of funds is often compared with the company's target, usually expressed as a margin below (or above) the dollar London interbank offered rates. Targets have been lowered as swap opportunities in many markets have been arbitrated away.

Companies are not only active in the swaps market when they raise funds in

the public markets, but also use the market for general debt management.

Swaps allow companies to take advantage of rising and falling interest rate trends to fix interest payments, for example. However, there has to be a counterparty who wants to make the opposite movement. And increasing concern about the credit quality of counterparties is somewhat hampering the access of certain companies.

Swap rates - the rates at which institutions will pay or receive as a counterparty in a swap agreement - and US Treasury yields tend to move in opposite directions. But at the moment swap yields are at historically low levels, at the same time as US Treasury yields have hit a four-year low.

NatWest Treasury is consequently advising its clients to take this opportunity to lock in fixed-rate funding at historically low levels. However, many companies are reluctant to do this because short-term rates for commercial paper are lower.

An increasingly common device is the deferred rate settlement which involves locking in a new issue's yield spread over the US Treasury market for a period. Thus if interest rates decline, the borrower can lock in a lower absolute rate of fixed interest costs.

From the banks' point of view - and new participants are still entering the market - there is still growth potential in corporate treasury business. When they come out, they will not despair. They are already targeting European fund managers, who have been generally more conservative than their counterparts in corporate treasury. Bankers believe that their conversion is at hand.

■ SYNDICATED LOANS

Sluggish volume of business

THE new capital adequacy requirements and a recession in the Anglo-Saxon economies have taken their toll on the syndicated loans market in the last few years.

The volume of business has been very sluggish and few bankers expect it to pick up quickly. However, many hope that top-quality corporate borrowers will return to the loans market as growth in the western economies improves. In the longer term, the reconstruction of those countries in the Middle East affected by the Gulf War is expected to lead to heavy borrowing, possibly in the syndicated loans market.

Alroy Samit Arabba has negotiated a \$4.5bn syndicated loan for general purposes (although the money may go towards paying for the allies' war effort) and Kuwait is thought likely to use the syndicated loans market to help pay for rebuilding the economy. As a result of the international capital adequacy requirements agreed by the Basle Committee, many banks - particularly the Japanese banks - are looking more cautiously at their lending. In the late 1980s, Japanese banks were responsible for 40-50 per cent of new lending, but because of concerns about capital adequacy requirements they may only account for 20-25 per cent of new lending for the rest of 1991, according to one Japanese banker.

As banks claim to have become more selective in their lending, the pricing on the loans has increased markedly. Pricing - including the margin over the London interbank offered rate and various fees - is now double, or even three times higher than it was two years ago.

With the recession in the UK and US, banks have become more worried about the creditworthiness of borrowers. Many banks are now concentrating on refinancing for top-quality borrowers. A recent OECD report, Financial Market Trends, concludes that "the future pace of overall growth in the international markets will crucially depend upon the volume of demand by borrowers with high credit standing".

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With the recession in the UK and US, banks have become more worried about the creditworthiness of borrowers. Many banks are now concentrating on refinancing for top-quality borrowers. A recent OECD report, Financial Market Trends, concludes that "the future pace of overall growth in the international markets will crucially depend upon the volume of demand by borrowers with high credit standing".

Worries about the impact of the recession on corporate borrowers has meant that many bankers are demanding much tighter financial ratios and more detailed covenants.

For example, the interest cover (profit divided by total interest charged) that banks are now requesting is more likely to be in the range 2.5 times, rather than 1.5-1.75 times as it was a year or so ago. Gearing (the debt-to-equity ratio) has also come under scrutiny. Bankers say they feel most comfortable with gearing of 100-125 per cent, rather than the level of 150 per cent which was common a year ago.

Furthermore, the bankers are likely to demand quarterly or half-yearly management accounts to keep a close eye on company profitability.

While bankers appear to be showing more caution over their lending activities, demand from companies in the Anglo-Saxon economies for syndicated loans has tailed off for a variety of

reasons. The high pricing on loans has deterred some, who feel they can borrow more cheaply in the international bond and commercial paper markets. Second, much of the syndicated loans activity in the late 1980s - particularly in the US market - was related to mergers and acquisitions: as M&A activity has fallen, so demand for related financing dwindled in 1990-1991.

Some companies which borrowed heavily to finance their growth now feel uncomfortable with their gearing: in many cases, they have taken advantage

Many bankers are demanding much tighter financial ratios

of the rise in the stock markets and increased investor appetite since the end of the Gulf War to raise equity and therefore reduce their gearing ratios.

While the statistics for syndicated lending make depressing reading for bankers, most point out that the market has gone through bad patches before. According to figures compiled by International Financing Review (IFR), there were 431 syndicated loans and note issuance facilities (NIFs) worldwide in the first six months of 1991 worth \$99.74bn. In the second half of 1990 there were 598 loans and NIFs worth \$160.5bn, while in the first half of 1990 there were 761 issues worth \$184bn. Citicorp ranked first in the league

table of lead managers and arrangers, with \$21.45bn of the syndicated loans and NIFs and 30 issues in the first half of 1991. Citicorp also came top in the first half of 1990 with 70 issues worth \$52bn, but in the second half, it slipped to fourth. National Westminster was top with 66 issues worth \$32.2bn.

The OECD report - Financial Market Trends - says that US companies are still borrowing in the syndicated loan market at about the same level as in 1990, but says borrowing requirements are at nowhere near the level seen in 1988-89, largely because of the decline in merger and acquisition financing.

Some banks are wondering whether British companies will return to the loans market in the next year or so as their multiple option facilities (Mofs) come up for renewal. Companies set up Mofs in the late 1980s to obtain very competitive standby funding options. As the banks were very keen to arrange these, the pricing was very aggressive, with companies paying a fee to be able to draw on the facility at a slim margin over Libor. Because the pricing was so cheap, many companies took out Mofs as a form of "insurance" on which they could fall back. However, in some cases, companies found that when they did need the funds, they were unable to fall back on these facilities as the banks used technical breaches of loan covenants as an excuse to avoid meeting their obligations.

Sara Webb

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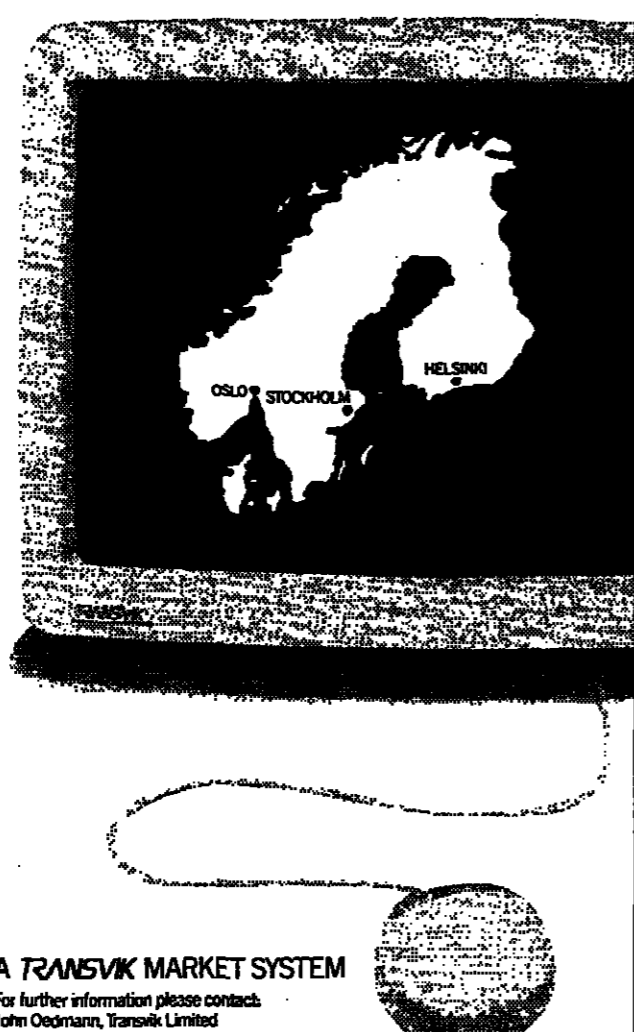
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■ REGULATION

Elusive international solution

THERE is one thing on which everyone connected with regulating securities markets and securities market intermediaries agrees: the need for greater international co-ordination to guard against a systemic collapse in securities markets. The trouble is, finding an international framework seems almost as far away as ever.

Several wide-ranging, multi-lateral attempts to stem risk in securities markets are being developed.

Not all have to do with regulation, but all are directed at reducing the dangers of financial stress in one market spreading to others.

The two most important initiatives are those aimed at agreeing a common standard of capital adequacy for securities firms, and at upgrading settlement systems around the world. Both are long and arduous processes, and each seems a long way from completion.

When reviewing the scope for structural improvements in securities markets, the Organisation for Economic Co-operation and Development (OECD) recently singled out these two areas as those with "the greatest scope for progress".

By contrast, it cast doubt on much of the effort put into guarding markets from stresses caused by a repeat of the 1987 stock market crash. Neither the use of "circuit breakers" to close markets at times of high volatility, nor limitations on programme trading, offered guarantees against contagion spreading in the world's securities markets.

The attempt to devise a common standard for the minimum capital of securities firms, parallel to the capital adequacy requirements for

banks developed by the Basle Committee of central bankers, is being taken forward on a number of fronts. The lack of a single forum for the debate means that progress is slow.

Three initiatives have yet to be drawn together. The first is the European Community's capital adequacy directive for non-bank investment firms (although banks would be able to apply the rules to their own trading books if they choose). This is the most developed of the various plans but also the one that is most stalled.

It is planned as a complement to the EC's investment

The result: the capital adequacy directive is on the shelf

services directive, which would give investment firms a "single passport" to operate throughout the Community, similar to the single passport available to banks. Yet the ISD is bogged down amid dispute over the future structure of Europe's investment markets. The result: the capital adequacy directive is on the shelf.

The second initiative is from the Basle group, which has extended its review of bank capital to include market risks. These include the risks inherent in securities portfolios held by banks. Last autumn, the Basle regulators met the progenitors of the third and final attempt at a capital adequacy standard: the International Organisation of Securities Commissions (Iosco), the grouping of securities market officials and regulators. At that meeting, the bank and securities regulators agreed to proceed together. Agreement

seemed only a matter of time. Until this spring, that is. A second meeting between bank and securities regulators, at which a common approach was to have been ratified, was called off by the regulators. The regulators got cold feet over the plans. The authorities from several countries decided they wanted more time to consider the proposals. It will not be clear until this autumn whether the discussions between the banking and securities authorities are back on the rails.

Meanwhile, there have been more significant achievements in the second concerted multi-national initiative to reduce risk in the securities markets: the upgrading of national settlement arrangements. The objectives set by the Group of 30 for settlement systems have in many cases yet to be attained, and the timetable established by the group is in danger of slipping in places (notably the UK, Spain, Italy, Australia and Hong Kong). However, the first significant target is now in sight in most countries: the adoption of a rolling settlement.

Further ahead, the final abolition of risk from the settlement process could prove more difficult than is currently acknowledged. Only when stock and cash change hands simultaneously, and when each side can guarantee good delivery, will the goal of "delivery versus payment" (commonly known as DVP) be achieved. There are many models for DVP, but few seem to offer an absolute assurance. Until they do, settlement will continue to be an area of risk in securities markets.

Multinational agreements, such as those on capital and settlement, are not the only way forward. As the discussions on capital show, such debates move slowly if at all and competitive and political considerations often get in the way of final agreement. Bilateral developments could help to fill the gaps.

Agreement between the US and Canada and, in the future, between the US and Mexico will put pressure on others to liberalise, says Mr Jones. In turn, liberalisation moves in Europe will put further pressure on the US.

Such competitive pressures could prove more effective in bringing about greater international agreement on regulatory issues than more ambitious, multilateral schemes.

Richard Waters

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INTERNATIONAL CAPITAL MARKETS 5

Simon London examines innovation in financial engineering

Structures under stress

REGULATION spurs innovation: nowhere is this more true than in the world of financial engineering. While the wildest designs of the financial engineers have faded with the boom years of the 1980s, there are still plenty of buyers for tailored financial instruments.

Tax and accounting anomalies, particularly in the distinction between debt and equity, remain a rich source of material. Regulation of the banking system, with the imposition of strict capital ratios which international banks must adhere to, has also created a market for instruments designed to meet industry design new capital structures.

Elsewhere, the technology of derivative financial instruments is being applied to small, private deals which offer investors protection against anything from volatility on the currency markets to the price of pork-bellies.

However, the most widely applied structures are instruments which share some of the features of debt and some of the features of equity. They are instruments which cut between the two, but are not quite either. They are designed to be like equity and for the purposes of accounting, but to be like debt for the purposes of tax.

Perhaps the simplest debt/equity hybrids are convertible bonds, such as the convertible

capital bonds issued by UK companies including Sainsbury, British Airways and Tesco.

The bonds give investors the right to convert into ordinary shares at a low premium to the current market price, making conversion highly likely.

The bonds are highly subordinated, giving the holders something akin to equity risk. This combination of factors has convinced accountants that the bonds can be accounted for as near-equity from the date of issue. Looked at from an economic perspective, rather than the legal perspective favoured by the tax authorities, the bondholders rank behind other creditors in the event of default. Yet if the issuer remains a going concern, the likelihood is the bonds will be converted into equity.

However, in other jurisdictions, debt/equity hybrids are more complex.

The main US instruments are auction market preferred shares (AMPS). The interest rate on AMPS is set through a regular remarketing or "auction" process. At each auction, investors have the right either to sell the bonds back to the intermediary which issued the notes (the remarketing agent) or demand a higher rate of interest.

From a tax perspective they are not true hybrids, since interest payments are not tax-deductible for the issuer. But

they are true hybrids when looked at from the economic perspective. Because of the remarketing process, the cost of capital rises when the issuer is in trouble - just like debt.

One issuer to face the reality of this situation was Rank Organisation, which opted to repay its \$200m AMPs from straight borrowings when a reduced credit rating made the instruments too expensive to maintain.

However, the search for tax-efficient capital has been most urgent among the world's banks as they struggle to meet the Basel guidelines on capital adequacy.

The Basel Committee guidelines set down capital adequacy standards, specifying a minimum ratio of capital to assets, which are being phased in by 1993. Total capital must be 8 per cent of assets. Of the 8 per cent, half must be Tier One or "core" capital, comprising equity and non-cumulative perpetual preference shares.

The remainder must be a mix of Upper and Lower Tier Two capital, comprising subordinated debt instruments, provisions and revaluation reserves. The distinction between Upper and Lower Tier Two capital has proved a rich vein of material with which financial engineers have worked.

In the past two years, many banks have turned to the issue of another complex auction-

based structure - variable rate notes - to fulfil Tier Two requirements. The structure is similar to AMPs in the US. The difference is that at each stage the VLN investor has the option to reject the new coupon and put (or sell) the bonds back to the remarketing agent, a feature which provides synthetic liquidity.

However, the remarketing or auction process is fragile in times of stress. For if no agreement on coupon is reached, the note reverts to a "back-stop" margin above the London interbank offered rate and the put option ceases to operate. In theory, the back-stop margin is set at a high enough level to compensate investors for the illiquidity of the bonds under such circumstances.

However, for the first half of this year all \$500 VRLNs in issue have been sold at a discount. Many investors - often corporate treasurers - who bought the bonds on the basis of the three-monthly put option in the belief they were an acceptable substitute for money market instruments, are now left holding illiquid assets.

The episode, like the problems in the AMPs market, serves to illustrate that engineered financial structures can be fragile. Little wonder that regulators such as the Basel Committee and the UK Accounting Standards Board are concerned that regulation should not lead to proliferation.

JAPAN

Tentative recovery stalls

ALL is still not well in Japan's financial markets. A tentative recovery in confidence this year, following last year's bruising stock market collapse, has been punctured in recent weeks as a wave of financial scandals have sent share prices falling again.

High interest rates, introduced in response to asset price inflation, triggered a collapse in the Tokyo stock market last year. This brought an abrupt end to five years of rapid international expansion by Japanese financial institutions.

This rise in short-term interest rates in Japan, and falling interest rates in the US, have reduced the outflow of Japanese portfolio savings. Japanese portfolio outflows fell by \$73bn in 1990, compared to 1989, to just \$3.7bn. Japanese investors were net sellers of US securities were net sellers of US securities.

This may signal an end to the diversification of Japanese financial institutions into foreign securities - which has sustained Japanese portfolio outflows since 1985 - according to the recent Bank for International Settlements (BIS) annual report.

Life insurance companies' foreign securities holdings represented 30 per cent of their

total securities portfolio at the end of 1990, down from almost 34 per cent at the end of 1989.

Meanwhile the stock market collapse has caused serious problems for banks in meeting the minimum capital adequacy ratios set in 1988 by the Basel committee on banking supervision of the BIS.

The BIS standards required a minimum capital-asset ratio of 7.25 per cent at the end of 1990, rising to 8 per cent by 1992. Last year's crash knocked more than 50 per cent off Japanese banks' capital ratios on their equity holdings, 45 per cent of which they are allowed to count as official capital.

Almost all Japan's leading banks had reached the required BIS standard in March 1991 by issuing subordinated debt and retaining back their assets. But recent falls in the Tokyo stock market, in the face of a series of financial scandals involving the Japanese securities industry, mean that the banks are again under pressure.

Mr Shijuro Ogata, former deputy governor of the Japan Development Bank and now a director of Barclays Bank, does not expect a recovery in the activity of Japan's financial institutions this year. "If banks try to raise new capital the

stock market will not bear it," he said.

Mr Yoh Kurosawa, president of the Industrial Bank of Japan, confirms that the latest scandals have damaged the prospects for Japan's banks, as well as the securities companies directly involved in the illegal practices. "Our neighbours' misfortune is our own misfortune," he said.

Mr Kurosawa said that as a result of the stock market's continued weakness the Industrial Bank of Japan would not be able to have a rights issue this year. He does expect asset growth in 1991 to top 2 per cent.

"If the stock market recovers and we can do a rights issue then we may take a bit more of an aggressive position than we are doing," he said. Even then the BIS rules will continue to constrain the banks' international lending. "We could not be aggressive like in 1985 - that was too much."

As a result, the Japanese banks have become more profit-conscious and are stressing the quality, rather than growth, of their assets. They are also raising their profile in securities activities overseas, such as Eurobond underwriting and selling and futures trading, to gain experi-

ence in advance of the expected liberalisation of the Japanese securities industry.

At present only foreign banks are permitted to engage in securities business through their subsidiaries. Domestic banks are prevented from doing so by Article 66 of the Securities and Exchange Act, Japan's version of the US Glass Steagall Act.

In recent years, the banks have pressed for this law to be reformed but the securities industry remains opposed to a full-scale deregulation. The Ministry of Finance is expected to propose legislation by the end of this year.

So far, the securities companies have grudgingly agreed to banks' subsidiaries engaging in certain primary securities activities from 1993 - less than the BIS rules on public-placed bonds and equity-linked instruments, and issuing privately-placed bonds.

The banks reply that underwriting without broking is meaningless. Mr Kurosawa said that with no secondary business there could be no primary business. "You can't issue bonds to clients but then not be able to buy them back if they want to sell," he said.

Edward Balls

WALL STREET

A welcome tonic

IF 1990 was the darkest year in Wall Street history, when earnings plummeted, losses mounted and thousands lost their jobs, 1991 is proving a welcome tonic for the nation's beleaguered securities houses.

So far this year earnings have recovered, losses have been pinned back by restructuring and the flow of redemptions has begun to abate. Analysts estimate that the US securities industry reported its second-quarter income this month, total pre-tax profits for the first half of the year will have reached somewhere between \$2.25bn and \$2.5bn. That would be a dynamic improvement on 1990, when securities firms made their first loss in 17 years. It would also come close to matching their best year of 1987, when \$2.7bn was earned in the first six months.

Evidence of this rebirth can also be seen in how well shares in broking houses have done since January. According to Birinyi Associates, the New York research firm, stocks of the leading publicly-owned brokerages rose 46 per cent in the first half of the year, which made the broking sector one of the top five performers over the six-month period.

In contrast, the Standard & Poor's 500 index, the best indicator of wider market performance, rose by 12.4 per cent. The gains in broking house stocks have been a direct result of the strength of the overall market and the increase in trading volume, which has generated greater income for Wall Street houses.

One of the best performers has been Merrill Lynch, the biggest US securities house and a traditional bellwether for the industry. Early this year, Merrill's stock was at a low of just over \$19 amid fears of a prolonged bear market and rising costs. Yet by mid-year the price had more than doubled to just under \$40. Merrill's profits in the first quarter rocketed 338 per cent to \$181m.

In spite of the weakness in the stock market in the second quarter, analysts expected another set of impressive figures from Merrill for the April-June period, primarily because of the big increase in domestic bond and equity underwritings. Between January and the end of June, US companies raised a total \$561.5m in new issues, a 50 per cent increase on the first half of 1990. The bulk of the new issues were launched in the second quarter. Merrill earned a large chunk of that business, acting as lead underwriter for \$45.5m in new issues, making it by far the biggest deal handler on Wall Street.

All the big brokers have benefited from the explosion in new issues, with Goldman Sachs, Salomon Brothers, Shearson Lehman, First Boston, and Kidder Peabody each underwriting issues worth more than \$200m in the first half of 1991. The finance officers of corporate America have rushed to the market to raise cash because of the strength of bond and equity prices which has enabled issuers to get more for their new securities - and the belief that interest rates have reached a floor.

Wall Street, however, cannot count on the number of new issues keeping pace in the second half of the year. The appetite of institutions for new paper is dwindling as cash reserves diminish, and by late June there were signs that brokers were having trouble placing new stock and bonds.

Investment management has been another area where Wall Street firms have done well. Millions of pounds spent on advertising to persuade Americans to place their

money with brokers has paid off. Fee-based income, previously neglected by many broking houses, has become a vital contributor to balance sheets.

Other areas of success include asset and mortgage-backed securitisation, and debt financing. The success of Merrill Lynch in the latter has perked up the industry. Merrill, Goldman Sachs and Bear Stearns to expand their debt transactions operations. Even the much-maligned junk bond market has experienced something of a revival, while the even more maligned real

estate market is showing signs of life, with Morgan Stanley and Merrill Lynch this year setting up big institutional funds to invest in cheap property assets.

The growth in income from trading, investment management and equity and bond offerings has helped offset a precipitous decline in earnings from mergers and acquisitions (M&A) business. According to Securities Data, the financial research group, US businesses were the target of 1,989 deals totalling \$57.3bn in the first half of this year, down 44 per cent on the first six months of 1990 - itself a quiet year.

A combination of heavy debt loads (much of it related to previous acquisitions), a shortage of credit, poor economic trading conditions and an uncertain economic outlook kept mergers and takeovers to a minimum. There are few indi-

cations yet that domestic M&A business will pick up soon, especially as the debt burden on corporate America shows no sign of easing.

While Merrill Lynch has prospered in the past year, two other big names have only just begun to recover from the disasters of the late 1980s. Shearson Lehman and Prudential-Bache are both owned by non-broking parents - Shearson (now renamed Lehman Brothers) by American Express, and Pru-Bache (now renamed Prudential Securities) by the giant insurance company Prudential. Both firms have proved a drain on resources for their parents.

Pru-Bache's attempt to transform itself into a leading investment bank was a failure. Prudential's estimated \$1bn investment in its securities subsidiary led to losses of \$51m in 1989 and \$260m in 1990. The losses stemmed from ill-advised expansion in four key areas: investment banking, limited partnerships, risk arbitrage and Canadian finance.

Since those losses, Prudential has installed its own man as head of its securities unit, a flexing of parental muscles echoed at Shearson where American Express has begun to exercise greater control over the company's second-largest brokerage firm. The \$915m loss in the first quarter of 1990 forced American Express to drop its plan to give Shearson more freedom and buy the broker outright, in the process investing some \$1.65bn.

The loss of independence at Pru-Bache and Shearson was a big blow to Wall Street's morale and although both firms have been helped back to profitability by favourable

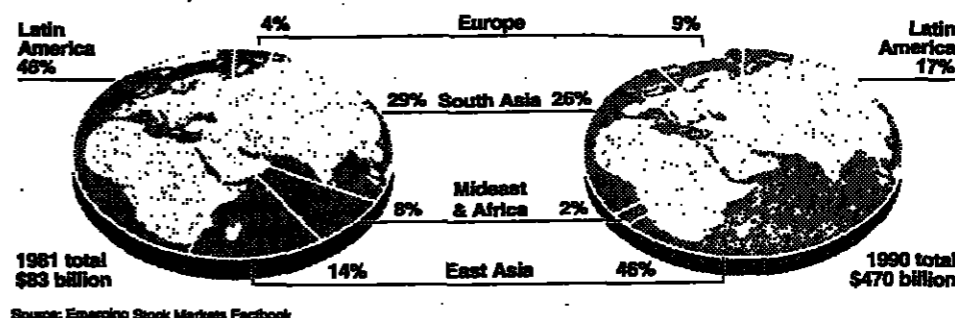
Patrick Harverson

EMERGING MARKETS

Forging ahead in difficult times

Regional weights of emerging markets

Based on market capitalisation in US dollars



Source: Emerging Stock Markets Handbook

THE recession in many of the developed economies over the past year has made portfolio exposure to the fast-growing economies of Asia and Latin America desirable for many international investors.

While the stock markets of the developed world have stagnated, many emerging markets are forging ahead. So far this year the Mexican stock market has risen 55.8 per cent, the Malaysian stock market 20 per cent and the Brazilian stock market a staggering 135 per cent.

Historically, the Asian markets have attracted most interest because of the prodigious rate of economic growth which has been sustained by the economies. In 1981, the Asian stock markets only accounted for 43 per cent of the total market capitalisation of all emerging markets, according to the International Finance Corporation, the private sector financing arm of the World Bank. By last year, this had risen to 72 per cent.

As a result, there has been a steady flow of companies from the region offering equity-linked debt, in the form of either convertible bonds or convertible bonds, to international investors.

The most active have been Korean companies, not least because the Korean stock market is still closed to foreign investors. But others to have issued equity-linked international debt securities include Taiwanese, Indonesian and Thai companies.

Not all of the deals have been a sparkling success. In particular, the four Indonesian equity-linked debt offerings launched in April seemed to saturate the market. For example, PT Indorayon's \$50m convertible offering was launched at par in April but was trading at a price of 85 bid by June. A combination of too much new paper and a poor performance by the Indonesian stock market were blamed. Indonesian share prices have fallen by nearly 20 per cent this year.

This underlines that appetite for emerging market exposure is still something of a niche business in the context of international securities trading as a whole. It is also a reminder that many emerging stock markets are highly volatile. But in many markets, and a large generator of dollars. This means that there are only a dozen or so eligible names in Mexico, still more than in most other Latin American countries.

Pemex, the Mexican state oil company, has led the way with Eurobond issues in D-Marks, Austrian schillings, dollars and Ecu, as well as a US domestic bond offering.

Despite this track record, Pemex still has to pay a premium for international funds. The company's Ecu75m three-year issue, launched in early July, carried a coupon of 11%

per cent. Top-rated corporations from Europe and the US pay substantially less. For example, a three-year issue launched by Asa Brown Borel, the Swedish-Swiss engineering group, at about the same time carried a coupon of just 9% per cent.

But the range of available instruments and the range of investors willing to back Mexican companies is broadening all the time.

The position of Mexican companies was aided by Telmex, the formerly state-owned telecommunications company, which raised \$20m from international investors in one of the largest ever international offerings of equity.

The transaction was rated a success by most observers. In particular, 800m shares were sold into the normally risk-averse US market. This transaction and the planned free-trade agreement with the US and Canada will do much to bring Mexico back into the mainstream of international finance.

Outside Mexico, large borrowings have been few, although the volume of small private placements has risen. Chile, perceived as a stronger credit than Mexico, has been little in evidence, due to the country's well-developed domestic markets.

Chile's top companies can raise funds for as long as 12 years domestically for a margin of only a couple of basis points above the dollar London interbank offered rate: a fund-

ing level which most companies elsewhere in the world would envy.

Rates in Chile became very tight because of the growth of pension funds, which were restricted to domestic instruments. As their demand for paper could not be met by domestic issuance, there has been some relaxation of the rules.

Chilean companies have little incentive to borrow outside their own market. However, Compania de Telefonos de Chile (CTC), the telecommunications company, issued nearly \$100m of shares as American Depositary Receipts on the New York stock exchange last year.

Petrobras de Venezuela, the Venezuelan oil company, raised DM200m last October. But Venezuelan companies are generally less well known internationally, and the economic fundamentals are less favourably perceived.

In other countries such as Brazil, Argentina and Colombia, still facing economic problems, there have been mainly small privately-placed deals, usually for less than \$25m.

However, Petrobras, the Brazilian state-owned oil company, recently broke this pattern with a \$300m international bond issue lead managed by Chase Manhattan. The success of the deal underlines the extent to which Latin America is stimulating interest among international investors.

Simon London

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INSIDE
Stocklake goes into voluntary liquidation

In an effort to return excess cash to shareholders in a tax-efficient manner, Stocklake Holdings, the overseas trading group, is going into voluntary liquidation. Investors will also receive shares in Adam & Harvey, which owns the trading activities of Stocklake and which will seek a Stock Exchange listing, and in Rea Brothers Group, the listed merchant bank. Maggie Urry examines the structure of the deal. **Page 18**

Upside of a down
A 35 per cent decline in first-half profits is not usually a cause for celebration in most companies, but at Banco Espanol de Credito (Banesto), one of Spain's largest commercial banks, the fall will be viewed as a healthy development. Last year, Banesto boosted profits from the sale of part of its large cement holdings. Banesto said its fee income in the first half of 1991 had actually increased 45 per cent. Peter Bruce reports. **Page 17**

Tales of the unexpected
Gift prices took a tumble last week following the unexpected announcement of a £1bn (\$1.5bn) tranche of UK government bonds in a far from popular maturity range. The announcement, although part of an already revealed plan to fund the government's deteriorating public sector account, served up a reaffirmation of the susceptibility of the market to new funding issues. Peter Marsh reports. **Page 18**

Euromarkets put on brave face
The news that the British Office of Fair Trading is making what it terms a "polite inquiry" into new issue practices in the Eurobond market has come at a highly sensitive time for the industry. Having flourished as an offshore arena, the market is trying to define and defend its position under a new European Community regulatory regime. Simon London reports. **Page 19**

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Moody's downgrades six US insurers

By Nikki Tait in New York

CONCERNS over the health of the US life insurance industry seem likely to be fuelled by the decision of Moody's, one of the large Wall Street rating agencies, to downgrade six big insurance companies.

Announcing its decision at the weekend, Moody's cited "the ongoing deterioration of commercial real estate values, which will increase underperforming real estate loans and investments". About one-fifth of the life industry's investments are held in

property-related assets. "Earnings will be under pressure, and capital formation will be slow at those companies with significant real estate exposure," it commented.

The downgrades cover John Hancock Mutual Life Insurance, the 10th-largest life company in the US; Massachusetts Mutual, ranking 15th; Principal Mutual, a leading player in the pension and group health sectors; Mutual Life Insurance Company of New York; New England Mutual Life Insurance, with assets of some \$17bn; and Travelers Insurance, part of the big Travelers composite insurance group.

Moody's said it was meeting several other companies, where analysts continued. It stressed, however, that future rating reductions should be modest in magnitude. It also said the "vast majority" of its rated insurance companies continue to be of "exceptional", "excellent" or "good" financial strength.

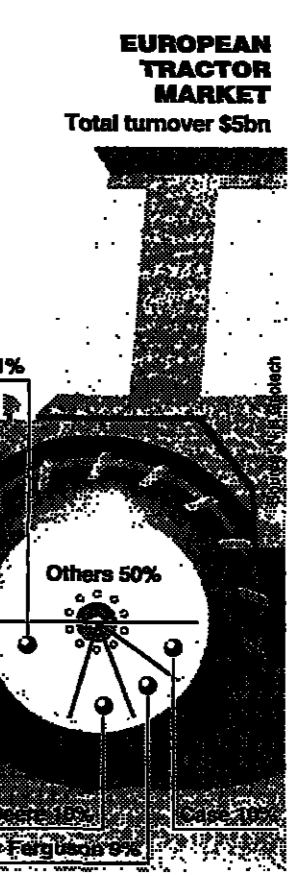
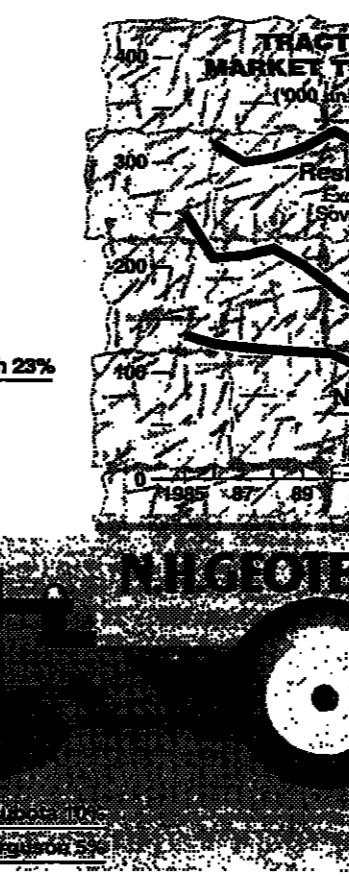
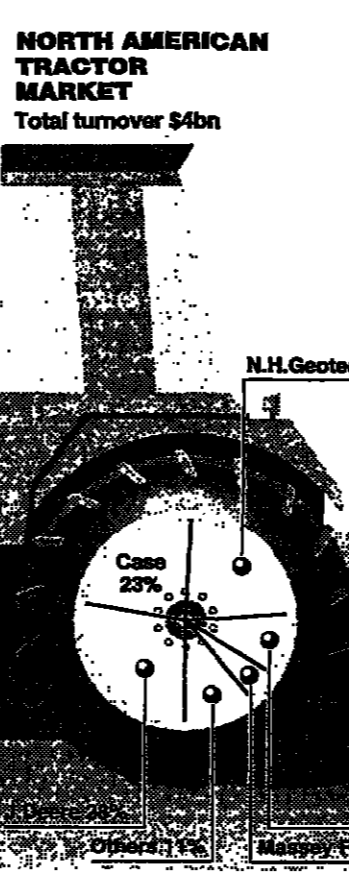
The recent downgrades leave most of the companies in the A category - upper medium grade, adequately secured - or better. John Hancock moves from Aaa (exceptional) to Aa2 (middle of the excellent category); Massachusetts Mutual from Aaa to Aa1 (upper end of excellent); Mutual Life from A2 to Baa1; New England Mutual from Aa1 to Aa3; Principal Mutual from Aaa to Aa1; and Travelers from A1 to A2.

N.H. Geotech nurtures a field of dreams

Andrew Baxter talks to the group's chairman about plans for the future

As farmers throughout Europe and North America prepare for this year's harvest, a small group of seasoned tractor industry executives is embarking on a complex process whose benefits may take rather longer to reap.

It is almost a year since Fiat of Italy and Ford of the US announced they were merging their agricultural and construction equipment businesses to form N.H. Geotech. Fiat holds an 80 per cent stake in what is the world's largest tractor manufacturer, in terms of units sold.



Staff who have just moved into N.H. Geotech's new world headquarters in west London did not even have time to fix the pictures to the walls before their chairman, Mr Giorgio Garuzzo, paid them a visit last week.

In his first interview since the deal was completed in May, Mr Garuzzo, Fiat's chief operating officer, outlined the strategy for a group which employs 30,000 worldwide and had *pro forma* sales of \$5bn last year.

N.H. Geotech combines the Ford New Holland range of agricultural and construction equipment with its counterparts at Fiat Geotech. Fiatagri agricultural machinery, Fiatallis earthmoving equipment and Fiat-Italtachi hydraulic excavators.

Mr Garuzzo, who has a reputation as one of Italy's toughest managers, made it clear that there would be plenty of changes over the next few years - although not quite in the way that some in the tractor business had expected.

The merger has had a long, difficult incubation. It took 10 months of negotiations before the two rival companies could reach agreement.

Antitrust and legal problems in the US held up progress. Spinning out the agricultural business from Ford's existing "monolithic structure" in Europe also took a long time, says Mr Garuzzo.

Economic Notebook

Dutch welfare disables the economy

"THE NETHERLANDS is sick," Mr Ruud Lubbers, the country's prime minister, said last year in a famous lament about the health of the Dutch welfare state. However, a more accurate description of the Dutch predicament would be: "The Netherlands is disabled."



The country faces a disability problem of unprecedented proportions. For every six people of working age, there is one who has officially been declared disabled or, according to the literal translation from Dutch, "unfit to work".

No country in the world has such a large proportion of its potential workforce drawing state benefits. Yet the Netherlands has a welfare state whose generosity is rivalled only by that of Scandinavia. The Dutch possess an enviable healthcare system and excellent health.

So what accounts for the Dutch disability? The answer is widespread abuse of the system, not by individuals faking non-existent pain, but by the country at large. The disability scheme - known by its initials, WAO - has become an expensive, but convenient, dumping ground for surplus workers. As such, it is a huge, hidden form of unemployment.

Prime Minister Ruud Lubbers: "The Netherlands is sick" scheme has also served, in part, as an escape route for employers who want to rid themselves of troublesome workers.

US group studies Tace bid

By Maggie Urry in London

THERMO Electron, the US environmental group, will this week decide whether to increase its offer for Tace of the UK following the claim by Cambridge Electronic Industries (CEI) to have won the bid battle for the environmental control equipment maker.

However, Barings, CEI's merchant bank, said yesterday it was confident that its client's position would stand.

Later on Friday, CEI announced it had made an increased, recommended offer for Tace and had irrevocable undertakings to accept the bid from holders of 50.5 per cent of the shares.

The disabled are often people who suffer from stress caused by either personal or professional problems, or both. As many as one-third of all disability payments are due to psychological problems. For almost 25 years, the generous disability

benefits, the single biggest item of social security spending, vast for a country of less than 16m people, is roughly equivalent to the government's annual budget deficit.

Recipients of disability benefits are paid up to 70 per cent of their former salary until they reach the retirement age of 63.

CEI's offer is of eight new shares for every five Tace shares. It values each Tace share at 300p and the group at £20.9m on the basis of a CEI price of 191.4p. Thermo Electron's offer is for 25p in cash for each Tace share, worth £24.9m (\$40m) in all.

CEI's announcement came after the stock market closed on Friday.

Thermo Electron is likely to make a statement today urging Tace shareholders not to take any action until the position is clear.

This announcement appears as a matter of record only. July 1991

COUNTY NATWEST INVESTMENT MANAGEMENT

County NatWest Investment Management Limited

has been appointed advisor to

County Global Quant Fund

which was launched with total subscriptions of

U.S. \$494,000,000

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COMPANIES AND FINANCE

Shareholders to receive cash and shares

Stocklake opts for liquidation

By Maggie Urry

STOCKLAKE HOLDINGS, the overseas trading group, is going into voluntary liquidation in order to return £5.7m of excess cash to shareholders in a tax efficient manner.

Investors will also receive shares in Adam & Harvey, which owns the trading activities of Stocklake and which will seek a Stock Exchange listing, and in Rea Brothers Group, the listed merchant bank in which Stocklake has a 4.7 per cent stake.

Rea Brothers, like Stocklake, is part of the Salomon family empire held together by cross-

shareholdings. About half of Stocklake's shares are held by other Salomon family companies. The family has been trying to simplify the empire since the death in 1987 of its founder, Sir Walter Salomon.

Stocklake estimates that for every 100 shares held investors will receive £133 in cash, 100 A&H shares and 43 Rea Brothers shares. Small shareholders can opt for cash instead of the Rea Brothers shares.

Using Friday's closing share prices of 332p for Stocklake

and 34p for Rea Brothers, the A&H shares would be worth about 184p each.

Stocklake says that on a pro-forma basis A&H would have declared earnings per share of 58.5p in the year to March 31, of which 28.7p cannot be remitted to the UK, and a net dividend of 10p.

That suggests an historic p/e of 3.1 or 6 on remittable earnings, and a yield of 7.2 per cent.

The rating is similar to that of Stocklake, based on pre-tax profits for the year to March 31 of £5.5m (£5.7m) and earnings

per share of 84p (£8.5p), also announced yesterday. Turnover was £26.5m (£28m). No final dividend is proposed, leaving a total for the year of 9p (£8p).

The timetable for the winding-up starts with an extraordinary general meeting to consider the deal on August 13. If approved, the A&H and Rea Brothers shares and 90 per cent of the cash would be distributed on September 16.

Trading should start in the A&H shares on September 17, and the remaining cash should be distributed on October 30.

£18m debt led Hughes Food into receivership

By Chris Tighe

An £18m debt led to Hull-based Hughes Food Group being placed in receivership last Thursday.

The USM-quoted food supply and services group was placed in the hands of Coopers and Lybrand Deloitte following discussions between the group's directors and a syndicate of lenders, comprising UK and overseas banks and led by Samuel Montagu.

Since Mr Henry Roberts, formerly a senior executive with Grand Metropolitan, was appointed chairman and chief executive of Hughes last October, the group has made a number of disposals of non-core businesses acquired during the swift expansion which followed its arrival on the USM in July 1986.

US companies in the limelight among international deals

By Brian Bollen

LAST WEEK'S biggest international deals all featured US companies as targets.

ABN Amro Bank underlined its commitment to international expansion with its first major acquisition since it was formed in August last year. The purchase of Talmat Federal Savings & Loan of Chicago will almost double its size in Illinois and make it one of the biggest financial companies in the US. The announcement came just two weeks after ABN Amro took full control of European American Bank.

Equitable Life featured in two transactions. In the first, French insurer Axa clinched the sizeable US presence it has

been coveting by agreeing to inject \$1bn into Equitable. Axa will initially take up to 49 per cent, and will eventually be free to take majority control.

Fast-diversifying Japanese consumer credit company, Nippon Shuppan, is breaking into the insurance business by buying 70 per cent of Equitable's loss-making Japanese arm.

Proof that it is still possible to exit from buy-outs came with the completion by North West Water of the purchase of Wallace & Tiernan of the US.

W&T was the subject of a \$64m leveraged buy-out from Fenwick Corp just over two years ago.

The next major buy-out from

a receiver looks like being that of John Fairfax. The bid for the failed Australian media group by an international consortium including Mr Conrad Black and Mr Kerry Packer, triggered a review of Australia's media ownership laws.

Poland continues to attract foreign capital. PepsiCo's purchase of a large stake in the Wedel chocolate company follows the announcement of its own and rival Coca-Cola's plans for new investments there.

In the week of President Gorbachev's visit to London, British Gas agreed in principle to a joint venture to develop an oilfield in the Soviet Union.

CROSS BORDER M&A DEALS				
BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Axa (France)	Equitable Life (US)	Insurance	\$800m	Axa clinches US presence
ABN Amro (Holland)	Talmat Federal S&L (US)	Banking	\$268m	Not the big deal expected
Touring International Consortium	John Fairfax (Australia)	Publishing	\$230m	Growing interest in Fairfax
North West Water (UK)	Wallace & Tiernan (US)	Chemical feeding equipment	\$78m	Acquisition completed
Mitsubishi (Japan)	Iron Ore Co (Canada)	Mining	\$40m	Mitsubishi takes 20%
PepsiCo (US)	Wedel (Poland)	Confectionery	\$14m	Initial 40% stake
Bank of Yokohama (Japan)	Guinness Mahon (UK)	Banking	\$10.5m	Offer for outstanding stake
Leopold (UK)	Micropolish (France)	Reclaim technology	n/a	European base for Leopold
Lebranchu (France)	Coventry Presswork (UK)	Automotive components	n/a	Lebranchu tapping new markets
Nippon Shuppan (Japan)	Unit of Equitable Life (US)	Insurance	\$87m (est)	NS buying 70%

German companies looks east

By Katharine Campbell in Frankfurt

GERMAN mergers and acquisitions business has been heavily concentrated in the new eastern states in the first half of this year, with activity in the west slowing markedly, according to figures compiled by M&A International, a consultancy based in Königstein outside Frankfurt.

Foreign companies completed 247 deals in Germany to the end of June, compared with 242 in the same period a year ago, but this year 74 of those were in the east.

By country, the Swiss have been the most active, with 14 eastern transactions. The French have completed 12 deals and the Americans 10. M&A does not disclose the relevant values.

German companies meanwhile purchased a total of 589 firms domestically, well up on the 373 in the same period a year ago.

year ago, but almost half of those (285) were in the east. In the rest of the country, a cooling of activity has been reflected in lower prices.

Indicating however that Germany's preoccupation with events in the east of the country may be abating, domestic companies effected 117 transactions abroad, compared with 77 in the first half of 1990 and 95 in the same period of 1989.

M&A notes a special interest

in France, where medium-sized companies are now following the larger corporations. The Germans bought more than twice as many (24) French entities as in the first half of last year (11).

The Swiss meanwhile have been buying into the EC market via Germany, leading, with the US, foreign inward investment. The US and Switzerland each accounted for 44 German companies changing hands.

Holmes investor calls for meeting

By Maggie Urry

THE DISAFFECTED investor group which holds 25.4 per cent of the shares of Holmes Protection Group, the US-based security and alarm group whose shares are only listed in London, has called for a special meeting of shareholders.

At the meeting the group will put resolutions to elect their representatives to the Holmes board.

The group is led by Mr Eric Kohn, a former director of Holmes, who wants to be chief operating officer of Holmes, and it proposes that Sir Ian MacGregor, former boss of British Steel and British Coal, should be chairman. Mr Kohn says that as well as the 25.4 per cent stake the group has the support of holders of another 14 per cent of Holmes.

Holmes has been struggling to restructure \$61m of debt, having failed earlier this year to sell a subsidiary. Mr Tom Mayer, chairman, has said that the investor group's actions have hindered work on the debt restructuring.

ICI to build paint factory in China

Imperial Chemical Industries is to build a £13m paint factory in the Guangdong province in southern China - the first ICI manufacturing plant on the Chinese mainland. The plant will have an annual capacity of 15m litres.

Black Arrow halved to £1.87m as new investment in industry slows

By Nigel Clark

THE LOW level of new investment in industry left annual taxable profits at Black Arrow, the office furniture group, down 50 per cent at £1.87m, against £3.75m.

During the year to March 31 the cleaning franchise business was liquidated and provisions for all foreseeable losses had been included in the accounts. There was an extraordinary charge of £288,000 to cover this.

A further charge of £48,000 related to the sale of a company with an offsetting credit of £150,000 from provisions for legal costs making a total extraordinary charge of £186,000.

The leasing division's results were ravaged by bad debts and provisions of about £1.2m were needed.

Earnings per share came out at 3.01p (8.44p). A halved final dividend of 1.5p is being recommended for a total payment of 2.1p (4.2p).

Mr Arnold Edward, chairman, said that many clients had been forced to cancel or defer major projects until the economy improved.

Turnover declined to £23.6m (£26.2m) split as to furniture manufacturing £21.7m (£23.5m), leasing and instalment finance £1.64m (£1.88m) and retail and franchising £278,000 (£282,000).

After tax of £1.07m (£1.38m) and minorities of £55,000 (£45,000) profit was £745,000 (£2.38m).

Tibbitt buys M and S food distributor

Tibbitt & Britten Group is further reinforcing its UK core activities with the acquisition of Regional Distribution Centre, an Exeter-based company which is dedicated to serving Marks and Spencer.

The purchase, for £5.3m cash, is from Transfield Services, which is jointly owned by Lex Service and Lombard North Central.

TBG will also take over the contract for the distribution of non-food merchandise to the M and S retail stores in the south west.

Current contract turnover is about £4m a year.

General Motors to shed 6,000 in North American plant closures

By Nikki Tait in New York

GENERAL MOTORS is to close two assembly plants in North America, in Ontario and California, with the loss of about 6,000 jobs overall. The moves come as the car manufacturer attempts to bring its production capacity more closely into line with demand.

The Scarborough Van Plant, in Canada, will be closed before the end of summer 1993, according to GM. In October 1989 the company announced that it would consolidate production of full-sized vans from Scarborough and Lordstown, Ohio, to Flint in Michigan.

It said that, after reviewing

"future product allocation plans", it had decided that there was no role for Scarborough.

The plant employs some 2,700 people, producing full-sized Chevrolet and GMC vans. The Californian plant, at Van Nuys, will stop operating next year when 1993 model year carline production is finished. At present, the plant employs 2,600 people, with a further 900 currently "on lay-off".

GM said it had originally hoped to convert the facility to a flexible assembly plant, but that had not proved feasible.

French constructor sells Davy stake

By William Dawkins in Paris

Spie Batignolles, the construction and plant engineering unit of France's Schneider group, has accepted Trafalgar House's offer for its 14.5 per cent stake in Davy Corp, the troubled UK engineering subsidiary.

As expected, Spie Batignolles will take a 70.25% (£11.5m) loss on its Davy shares, for which it has made provision of FF100m in last year's accounts. Trafalgar House's

95p per share offer values Davy at £14m and Spie Batignolles's stake at £16.5m. The French company bought its stake in Davy for 285p per share 15 months ago, in exchange for its Clecm metallurgical engineering subsidiary.

Spie Batignolles has already warned that the Davy setback, the economic slowdown and doubts over the payment of some contracts could adversely affect this year's profits.

Correction

Pre-tax profits of Brasway, the West Midlands engineer, dropped from £2.71m to £253,000 in the year ended April 27 1991. In Friday's edition the figures given were incorrect.

COMPANY NEWS IN BRIEF

API: Board notes that acceptance from NMC offer in respect of ordinary shares represent just 0.36 per cent of API share capital.

NOREX AMERICA, 49.7 per cent owned by Norex, has sold its 80 per cent interest in Norgulf Shipping for \$5.1m (£3m).

FREESTOCK HOLDINGS has acquired Band Electronics, a privately-owned electronic components concern. Consideration is 300,000 Prestwick ordinary shares and £100,000 cash. Turnover of Band was £5m in 1990.

QUEENS MOAT HOUSES: Rights issue of 188m new 7.55 per cent convertible cumulative redeemable preference shares taken up as to 42.5 per cent.

SIMON ENGINEERING has, through its access division, signed a distribution and joint venture agreement with the Tomen Corporation of Japan, under which access equipment made by Simon in the US and Europe will be imported, distributed and serviced in Japan.

WARNER HOWARD is paying \$840,000 cash for Derek Wright

(Food Machinery), the Lancashire-based importer and distributor of commercial catering equipment. Wright made £149,000 pre-tax profit on £929,000 turnover for year to February 28 1991.

FIRST SPANISH Investment Trust: Net asset value per share declined by 11.2 per cent to 85.5p during the year ended May 31 1991. Net assets at the year end stood at £20.15m (£33.9m). Net revenue amounted to £354,780 (£213,503) and there is a dividend of 1p per share, payable November 4.

Residential Property Securities No.1 PLC

£200,000,000

Mortgage Backed Floating Rate Notes 2018

Notice of Partial Redemption

S.G. Warburg & Co. Ltd. announce that Notes for the nominal amount of £8,300,000 have been drawn for redemption on 22nd August, 1991, in accordance with Clause 5(b) of the Terms and Conditions of the Notes.

The distinctive numbers of the Notes drawn, are as follows:-									
6	29	51	74	98	120	143	165	189	211
235	257	279	301	323	345	367	389	411	433
455	477	499	521	543	565	587	609	631	653
690	712	734	756	778	800	822	844	866	888
929	951	973	995	1017	1039	1061	1083	1105	1127
1169	1191	1213	1235	1257	1279	1301	1323	1345	1367
1403	1425	1447	1469	1491	1513	1535	1557	1579	1601
1643	1665	1687	1709	1731	1753	1775	1797	1819	1841
1863	1885	1907	1929	1951	1973	1995	2017	2039	2061

On 22nd August, 1991 there will become due and payable upon presentation of each Note drawn for redemption, the principal amount thereof, together with accrued interest to said date, at the office of:-

S.G. Warburg & Co. Ltd.
2 Finsbury Avenue, London EC2M 2PA
or one of the other paying agents named on the Notes.

Interest will come to accrue on the Notes called for redemption on and after 22nd August, 1991 and Notes so presented for payment should have attached all Coupons maturing after that date.

£140,900,000 nominal amount of Notes will remain outstanding after 22nd August, 1991.

22nd July, 1991

NOTICE OF PREPAYMENT

ÖSTERREICHISCHE LÄNDERBANK AKTIENGESELLSCHAFT

Yen 5,000,000,000

Floating Rate Notes 1992 (the "Notes")

In accordance with the Condition 5(A) of the Terms and Conditions of the Notes, notice is hereby given that Österreichische Länderbank Aktiengesellschaft will, on the interest payment date falling in September 1991, redeem all the outstanding Notes at their then Redemption Amount.

Payment of Interest and reimbursement of Redemption Amount will be made in accordance with the Terms and Conditions of the Notes.

Vienna, 22nd July, 1991

Österreichische Länderbank Aktiengesellschaft

Am Hof 2

A-1010 Vienna

Austria

Agent Bank

Bankers Trust

Company, London

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Asahi

ASAHI BEVERAGES, LTD.

(Incorporated in Japan with limited liability)

¥30,000,000,000

Floating Rate Notes

1996

In accordance with the Terms and Conditions of the Notes, notice is hereby given that the rate of interest for the period 18th July, 1991 to 20th January, 1992 has been fixed at 7.45 per cent per annum and that the coupon amount payable on the 20th January, 1992 will be ¥378,538 per note of ¥10,000,000.

THE SUMITOMO BANK, LIMITED

(Agent Bank)

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

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Agent Bank

COMMERCIAL BANK OF LONDON

RESULTS FOR SIX MONTHS ENDED 30th JUNE 1991 (UNAUDITED)

The profit attributable to Shareholders for the half year ended 30th June 1991 amounted to £253,246.

It is anticipated that the profit for the full year to 31 December 1991 will show an improvement.

6 months to 30th June 1991

6 months to 30th June 1990

Gross Income

Profit before taxation

Taxation

Profit attributable to shareholders

Amount absorbed by dividend

Earnings per £5 share

No interim dividend is to be paid.

Copies of this announcement will be available to the public from the registered office of the Company, Bankside House, 107-112 Leadenhall Street, London EC3A 4AE.

July 22, 1991, London

By: Citibank, N.A. (CSSI Dept.), Agent Bank

CITIBANK

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

Agent Bank

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This notice is issued in compliance with the requirements of the Council of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("the London Stock Exchange"). It does not constitute an invitation to the public to subscribe for or purchase any securities.

CLAYHITHE GROUP PLC

(Incorporated in England under the Companies Act 1985, Registered No. 3610451)

in the process of changing its name to "Clayhithe PLC"

Issue of

up to 18,256,018 ordinary shares of 10p each

and

up to £8,538,676 nominal of 9.5% subordinated convertible

unsecured loan stock 2000/2001

in connection with the capital reorganisation of Clayhithe PLC by means of a Scheme of Arrangement under Section 425 of the Companies Act 1985.

Subject to the approval of the Court, it is expected that the Scheme of Arrangement will become effective on Thursday, 25th July, 1991.

Particulars of the ordinary shares and convertible loan stock are included in the Companies Fiche Service available from the London Stock Exchange.

Application has been made to the Council of the London Stock Exchange for the ordinary shares and convertible loan stock to be admitted to the Official List and dealings therein are expected to commence on Friday, 26th July, 1991.

Copies of Listing Particulars relating to Clayhithe Group PLC are available for collection during usual business hours up to and including Wednesday, 24th July, 1991, from the Company Announcements Office of the London Stock Exchange, 46-50 Finsbury Square, London EC2A 1DD, and up to and including Monday, 5th August, 1991 from:

Clayhithe Group PLC

P.O. Box 2, Mandeville Road

Aylesbury, Bucks HP21 8AB

Schroder Securities Limited

120 Cheapside

London EC2V 6DS

22nd July, 1991

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Turkey returns after year-long absence

THE REPUBLIC of Turkey has returned to the syndicated loan market with a three-year \$200m loan after an absence of a year. However, some bankers have suggested that the loan was given weak demand for medium-term Turkish loans.

Mitsubishi Bank and Sumitomo Bank, the joint arrangers, are currently putting together an underwriting group and offering tranches of \$150m-250m.

The margin is 90 basis points over the London interbank offered rate (Libor), plus fees, though these have not yet been disclosed. Turkish borrowers refrained from using the syndicated loan market during the Middle East conflict, mainly because Turkey was considered an unacceptable risk and so terms for loans were unfavourable.

However, with the conclusion of the Gulf war in February, several Turkish borrowers returned to the market. These include Turkiye Is Bankasi, Turkey's largest privately owned commercial bank, which arranged a \$100m one-year facility to finance exports and Turkey Petrol Rafinerileri (TUPRAS), which arranged a \$100m one-year import financing facility to cover oil imports.

One banker who arranges syndicated loans for Turkey said that while plenty of banks were willing to participate in one-year facilities, far fewer were willing to participate in medium-term loans to Turkey.

The Republic of Turkey last tapped the syndicated loan market in June 1990, with a two-tranche \$200m loan. The

margin over Libor then was 85 basis points for the four-year tranche, and 100 basis points for the five-year tranche, with fees of 40 basis points.

Turkey is a regular borrower in the international capital markets. One banker involved in the deal said that Turkey usually borrows between \$400m and \$600m a year in the capital markets.

The Turkish government estimates it lost about \$5bn in revenue from the Iraqi oil pipeline and tourism during the Middle East crisis. However, soft loans and grants from donors will cover half of the projected \$4bn required in 1991 to service Turkey's \$45bn foreign debt, according to the Turkish Treasury.

So far this year, Turkey has issued a DM350m five-year bond, announced in May, and is considering whether to follow up its syndicated loan with a YTL bond - a dollar-denominated bond issued in the US market - this autumn.

Meanwhile, bankers expect the steady flow of Turkish loans to continue over the next few months given the level of pent-up demand seen during the Gulf war when the market was virtually closed to Turkish borrowers.

Household Finance (HFC) has signed a \$100m four-year revolving credit with Morgan Grenfell as the arranger. The credit facility will replace a Multi-Option Facility (MoF) which expired recently, and will be used for general corporate purposes.

The margin is 45 basis points over Libor and there is a commitment fee of 22.5 basis points on the undrawn amount. Participation fees range from 8-12 basis points.

Many British companies took out MoFs in the late 1980s as a form of cheap insurance in case they needed to draw on extra funds. The MoFs provided a range of competitive standby funding options and were often arranged on very favourable terms for the borrowers.

In the case of HFC, the MoF was a five-year \$100m credit with a committed margin of 15 basis points and a standby fee of 10 basis points - well below current pricing levels as the new credit facility illustrates.

Sara Webb

INTERNATIONAL BONDS

Euromarkets put brave face on unwelcome questions

THE "polite inquiry" by Britain's Office of Fair Trading into new issue practice in the Euromarket comes at a sensitive time. Having flourished as an offshore arena, the market is now trying to define and defend its position under a new European Community regulatory regime.

Firstly, the Association of International Bond Dealers, the regulatory body for the Euromarket in the UK, is working to have its rule book recognised by the European Commission. AIBD is concerned that even the passing of interest of the UK competition watchdog could cause the European Commission competition authorities to look again at the Euromarket.

This could cloud the task of having the AIBD rule book accepted by the officials at DG 4 - the department of the European Commission which is concerned with competition policy. The process of approval is wearing its final stages and the AIBD is hoping for a "letter of comfort" from the EC before the year-end and does not want any last-minute hitches.

Hence the AIBD is keen to point out that its rule book does not cover new issue syndication and allotment, the areas in which the OFT is interested. This falls to the International Primary Markets Association, a trade association which represents the leading new issue firms.

IPMA in turn points out that it issues recommendations rather than rules. These have to be approved unanimously by the IPMA board and are

cleared by the OFT before they are published. Secondly, the AIBD and IPMA are fighting proposed amendments to the draft Investment Services Directive (ISD), which could drive securities business back on to domestic markets.

The ISD was intended to give securities firms a "single passport" to do business across the European Community to match that given to banks under the Second Banking Directive. However, a number of European governments, led by the French, have proposed that trading of securities should be restricted to "regulated markets" - in the name of investor protection.

The Eurobond would not qualify as a regulated market, primarily because it has no formal listing requirements.

There are fears that even an initial, polite inquiry by a competition watchdog could provide ammunition for those who want to ban trading outside "regulated markets".

The French amendments are being firmly opposed by many other governments, including the UK. The commission also favours allowing investors to continue dealing away from regulated markets. A compromise to allow trading of securities away from a regulated market - and therefore in the Eurobond market - so long as the investor has given explicit authorisation.

The unpalatable alternative is that the Eurobond market would have to introduce formal listing requirements to be

as a "regulated market". The view of the AIBD is that this would offer no advantages to market participants. It could also mean that Eurobond firms would have to submit to tough disclosure requirements also being proposed by the French and other southern European governments - known collectively as the "Club Med" - as part of the ISD.

While Eurobond trades currently have to be reported through the AIBD's Trax reporting system within 30 minutes, Eurobond firms are not required to publish price or volume information.

Trax has the capacity to carry "real-time" price and volume information, but this has always been vigorously resisted by market participants. They say the Eurobond

market is primarily a "professional" market, dominated by sophisticated investment institutions, so investor protection is unnecessary. The AIBD bowed to this view and abandoned plans for screen-based price quotations as long ago as 1987. Hence the Eurobond market has remained a market lacking in secondary market transparency. New issue rules are set by IPMA. Regulation remains light.

Yet as a formula for raising long-term finance the Eurobond system has proved attractive. The \$22bn raised in the first half of this year is clear evidence of this. The attention of the OFT, the EC or the French government is not welcomed.

Simon London

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Tobu Railway (c)†	300	1995	4	4 1/4	100	Yamaichi Int.	4.250
Shimizu Wire (a)†	120	1995	4	4 1/4	100	Daiwa Europe	4.250
Tokyo Hotel Chain (c)†	120	1995	4	4 1/4	100	Yamaichi Int.	4.250
Tatsunaka Plastic Ind. (b)†	100	1995	4	4 1/4	100	Daiwa Europe	4.250
Semihel Co. (b)†	100	1995	4	4 1/4	100	Daiwa Europe	4.250
Tung Ho Steel Ent. (a)†	40	2001	10	4	100	Jardine Fleming	4.000
Exp. Devt. Corp. of Canada (c)†	200	1994	3	7 1/2	101.2125	CSFB	7.288
Komatsu Seiren†	100	1995	4	4 1/2	100	Yamaichi Int.	4.500
S&W Corp†	100	1995	4	4 1/2	100	Nikko Secs.	4.500
St. George B.S. (c)†	100	1998	7	0	100	STI	-
Hill Capital (c)†	60	2006	15	(7 1/4-7 1/2)	100	J. Henry Schroder	-
Credit Local de France†	200	1995	4	8 1/4	101.325	Daiwa Europe	7.851
Ten Corp†	100	1995	4	4 1/2	100	Nikko Secs.	4.500
Shiroki Corp†	90	1995	4	4 1/2	100	Daiwa Europe	4.575
Central Int. (c)†	80	1995	5	(8 1/4-10)	100	Merrill Lynch	-
Oseka Cement Co. (c)†	100	1995	4	4 1/2	100	Nomura Int.	4.500
Toyota Motor Credit Corp†	200	1995	4	8 1/4	101.43	CSFB	7.820
Banobras†	100	1995	5	10 1/4	101.428	CSFB	10.371
Mitsubishi Cable Inds.†	120	1995	4	4 1/2	100	Nikko Secs.	4.500
JGC Corp.†	100	1995	4	4 1/2	100	Nomura Int.	4.500
Talest Holland†	15	1998	7	8.8	101 1/2	Fuji Int. Fin.	8.435
STERLING							
Rolle-Royce†	150	1998	7	11 1/2	101.465	S.G. Warburg	11.311
ECUs							
LKB Baden-Wuerttemberg†	150	1998	5	9 1/4	101.425	Nomura Int.	8.885
Mizuno Corp†	70	1995	4	5 1/2	100	Nikko Secs.	5.500
JGC Corp†	70	1995	4	5 1/2	100	Nikko Secs.	5.500
CANADIAN DOLLARS							
BP America†	200	2001	10	10 1/2	101	J.P. Morgan Secs.	10.707
Procter & Gamble†	200	2001	10	10 1/2	101.30	Goldman Sachs	10.657
British Gas Int. Fin.†	200	1994	3	10	101.185	Goldman Sachs	9.535
AUSTRALIAN DOLLARS							
State Bk. NSW†	100	2001	10	11 1/4	100	Deutsche Bk. Cap. Mkts.	11.750
FRENCH FRANCS							
Societe Generale†	80n	1992	1	9 1/2	99.98	Societe Generale	9.322
Credit Lyonnais†	30n	1992	1	9 1/2	99.95	Credit Lyonnais	8.544
D-MARKS							
Hogewoens on Steel†	150	1995	5	9	101 1/4	Deutsche Bk.	8.881
Mr Max Corp†	100	1995	4	5	100	Nomura Europe GmbH	5.000
Chubu Steel Plate (b)†	100	1995	4	5	100	Nikko Bk. GmbH	5.000
SWISS FRANCS							
Nissan Construction (a)†	100	1995	-	4	100	Nomura Bk. (Switz)	3.897
McDonalds Aust. Property†	100	1995	-	8 1/2	101 1/2	Wirtschafts & Privatbk.	6.300
Kaneko (a)†	150	1995	-	4	100	SBC	4.040
Riso Kagaku†	30	1995	-	5 1/2	100	Nikko Bk. (Switz)	5.578
Longchamp Co. (a)†	25	1995	-	3 1/4	100	Coutts & Co. AG	3.125
Shindengen Electric†	80	1995	-	3 1/2	100	Banque Paribas	3.625
Konami (a)†	80	1995	-	3 1/2	100	Nomura Bk. (Switz)	3.875
Oseki Electric Co. (a)†	50	1995	-	4	100	Wirtschafts & Privatbk.	4.040
Toko Inc. (a)†	50	1995	-	8 1/2	100	Credit Suisse	3.550
Yamato Seibutsu (a)†	40	1995	-	6 1/2	100	New Japan Secs. (Switz)	5.118
Wacker Chemicals Finance†	75	1999	-	7	101 1/2	Credit Suisse	6.751
Kage Ei (a)†	40	1995	-	3 1/2	100	Coutts & Co.	3.625
Takao Co.†	20	1995	-	7 1/4	100	Dai-ichi Kogyo Bk.	7.250
Rio Chain Co. (a)†	35	1995	-	3 1/2	100	Nomura Bk. (Switz)	3.500
Nikodo Co. (a)†	100	1995	-	4	100	Daiwa Secs. (Switz)	4.000
Mandom Corp. (a)†	70	1995	-	5 1/2	100	Nomura Bk. (Switz)	5.575
Nishio Corp. (a)†	100	1995	-	3 1/2	100	UBS	3.831
PESETAS							
Council of Europe (c)†	100n	1996	5	11.7	101.80	Banco Hispano Amer.	11.210
LIRE							
Credit Local de France (c)†	1500n	1996	5	12.2	101.775	Is. Bco. San Paolo	11.711
World Bank†	5000n	2001	10	10 1/4	101 1/2	Is. Bco. San Paolo	10.583
YEN							
Oriental Landbank (c)†	60n	1992	1	9	100 1/2	Nippon Credit Int.	8.055
LUXEMBOURG FRANCS							
Kemira Int. Fin.†	500	1994	3	9 1/2	101.95	BCEE	8.857
BBL International NV†	1.50n	1999	8	9 1/2	102	Credit European	9.384
Kreditbank Int. Fin.†	500	1999	8	9 1/2	102	KBL	9.013
Kreditbank Int. Fin.†	500	1999	5	9 1/2	101.85	KBL	8.901
BGL†	10n	1995	6	9 1/2	101 1/2	BGL	8.535
Yamaha Corp†	700	1995	6	9 1/2	102	Croqem Int.	9.108
Credito Romagnolo†	800	1995	4 1/2	9 1/2	102	Credit Int.	9.005

Aachener Münchener Leben: Initial Public Offering

A STOCK WITH LIFE

Life assurance is becoming increasingly popular with young people, too. It secures the formation of families and businesses, opens up larger credit lines, helps to accumulate wealth. The youth market is a lively growth market for life insurers. Especially for us - Aachener Münchener Leben has an above-average number of young customers. Also in the new "Länder" in Eastern Germany.

Our new business has experienced dynamic growth for years. In 1990 we generated new policies totalling DM 16 billion which means an increase of 56.6% over the prior year. This development continues this year.

Our dynamic growth is due to our market-orientated strategy. We meet the highly varied needs of our customers by offering numerous types of term and endowment assurance. We are one of the market leaders for fund-linked life assurance which is particularly attractive for the accumulation of capital. Let us show you new ways of accumulating wealth. And you will know that as a shareholder, too, you have invested your money well.

Quality of products makes the quality of our business. Moreover, we benefit from the successful interplay of a large financial services network including insurance companies, banks, a building society and other service companies. Because Aachener and Münchener Leben is part of the Aachener and Münchener Group.



Aachener und Münchener Lebensversicherung Aktiengesellschaft

Our new business increased by 56,6% thus achieving a new record high

FRANCE (continued)				GERMANY (continued)				NETHERLANDS				SWEDEN (continued)				CANADA																	
1991		1991		1991		1991		1991		1991		1991		1991		1991		1991		1991		1991		1991		1991		1991					
High	Low	July 19	Price	High	Low	July 19	Price	High	Low	July 19	Price	High	Low	July 19	Price	Sales	Stock	High	Low	Closing	Cling	Sales	Stock	High	Low	Closing	Cling	Sales	Stock	High	Low	Closing	Cling
3,710	2,210	Airbus A310	2,965	2,770	2,201	Bombardier	2,300	280	219	10	Commerzbank	245	34.40	30.80	ANWB	27.30	220	145	23	71	71	60300	Aviation	514	145	145	145	730	3400	110	145	145	145
703	550	Boeing 737	640	2,770	2,201	Bombardier	2,300	280	219	10	Commerzbank	245	34.40	30.80	ANWB	27.30	220	145	23	71	71	60300	Aviation	514	145	145	145	730	3400	110	145	145	145
703	550	Boeing 737	640	2,770	2,201	Bombardier	2,300	280	219	10	Commerzbank	245	34.40	30.80	ANWB	27.30	220	145	23	71	71	60300	Aviation	514	145	145	145	730	3400	110	145	145	145
703	550	Boeing 737	640	2,770	2,201	Bombardier	2,300	280	219	10	Commerzbank	245	34.40	30.80	ANWB	27.30	220	145	23	71	71	60300	Aviation	514	145	145	145	730	3400	110	145	145	145
703	550	Boeing 737	640	2,770	2,201	Bombardier	2,300	280	219	10	Commerzbank	245	34.40	30.80	ANWB	27.30	220	145	23	71	71	60300	Aviation	514	145	145	145	730	3400	110	145	145	145
703	550	Boeing 737	640	2,770	2,201	Bombardier	2,300	280	219	10	Commerzbank	245	34.40	30.80	ANWB	27.30	220	145	23	71	71	60300	Aviation	514	145	145	145	730	3400	110	145	145	145
703	550	Boeing 737	640	2,770	2,201	Bombardier	2,300	280	219	10	Commerzbank	245	34.40	30.80	ANWB	27.30	220	145	23	71	71	60300	Aviation	514	145	145	145	730	3400	110	145	145	145
703	550	Boeing 737	640	2,770	2,201	Bombardier	2,300	280	219	10	Commerzbank	245	34.40	30.80	ANWB	27.30	220	145	23	71	71	60300	Aviation	514	145	145	145	730	3400	110	145	145	145
703	550	Boeing 737	640	2,770	2,201	Bombardier	2,300	280	219	10	Commerzbank	245	34.40	30.80	ANWB	27.30	220	145	23	71	71	60300	Aviation	514	145	145	145	730	3400	110	145	145	145
703	550	Boeing 737	640	2,770	2,201	Bombardier	2,300	280	219	10	Commerzbank	245	34.40	30.80	ANWB	27.30	220	145	23	71	71	60300	Aviation	514	145	145	145	730	3400	110	145	145	145
703	550	Boeing 737	640	2,770	2,201	Bombardier	2,300	280	219	10	Commerzbank	245	34.40	30.80	ANWB	27.30	220	145	23	71	71	60300	Aviation	514	145	145	145	730	3400	110			

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FINLAND		374.88	250.20	Steel (Finland)	338.10	
High	Low	71.50	55.50	Electronics	66.50	
71.50	55.50	44.00	14.50	Thompson CS	14.50	
89.00	55.50	22.00	Text Frms B	22.00		
312.00	94.00	10.00	UPPS Localcell	10.00		
312.00	94.00	10.00	UPPS Localcell	10.00		
47.00	32.00	10.00	Unifon Int'l	10.00		
47.00	32.00	10.00	Unifon Int'l	10.00		
346.00	260.00	10.00	Vallveire	10.00		
GERMANY		310.00	210.00	Steel (Germany)	210.00	
High	Low	71.50	55.50	Electronics	66.50	
71.50	55.50	44.00	14.50	Thompson CS	14.50	
89.00	55.50	22.00	Text Frms B	22.00		
312.00	94.00	10.00	UPPS Localcell	10.00		
312.00	94.00	10.00	UPPS Localcell	10.00		
47.00	32.00	10.00	Unifon Int'l	10.00		
47.00	32.00	10.00	Unifon Int'l	10.00		
346.00	260.00	10.00	Vallveire	10.00		
FRANCE		310.00	210.00	Steel (France)	210.00	
High	Low	71.50	55.50	Electronics	66.50	
71.50	55.50	44.00	14.50	Thompson CS	14.50	
89.00	55.50	22.00	Text Frms B	22.00		
312.00	94.00	10.00	UPPS Localcell	10.00		
312.00	94.00	10.00	UPPS Localcell	10.00		
47.00	32.00	10.00	Unifon Int'l	10.00		
47.00	32.00	10.00	Unifon Int'l	10.00		
346.00	260.00	10.00	Vallveire	10.00		

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FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

(Continued)

[illegible]

the 1990s, the number of people in the United States who are 65 years of age or older is projected to increase from 20 million to 30 million, and the number of people 75 years of age or older is projected to increase from 10 million to 15 million (U.S. Census Bureau, 1996). The number of people 85 years of age or older is projected to increase from 2 million to 4 million (U.S. Census Bureau, 1996). The number of people 90 years of age or older is projected to increase from 500,000 to 1 million (U.S. Census Bureau, 1996). The number of people 95 years of age or older is projected to increase from 100,000 to 200,000 (U.S. Census Bureau, 1996). The number of people 100 years of age or older is projected to increase from 10,000 to 20,000 (U.S. Census Bureau, 1996).

Unit	Int. Charge	Cost Price	Bid Price	Offer Price	Yield %	City- State
Metropolitan Fund Management - Contd.						
MAN FUND Scheme						
M Major Co's... 5%	71.14	72.27	76.07	-	36524	
M Smaller Co's... 5%	45.53	47.00	49.47	-	48526	
	4.94	47.13	49.56	-		

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	1994	1995	1996	1997	1998	1999
United States	11,438	11,450	12,500	10,430	41,326	41,326
Canada	1,100	1,100	1,100	1,100	1,100	1,100
Latin America	1,100	1,100	1,100	1,100	1,100	1,100
Asia Pacific	1,100	1,100	1,100	1,100	1,100	1,100
Europe	1,100	1,100	1,100	1,100	1,100	1,100
Africa	1,100	1,100	1,100	1,100	1,100	1,100
Oceania	1,100	1,100	1,100	1,100	1,100	1,100
Other	1,100	1,100	1,100	1,100	1,100	1,100
Subtotal	11,438	11,450	12,500	10,430	41,326	41,326
United States	11,438	11,450	12,500	10,430	41,326	41,326
Canada	1,100	1,100	1,100	1,100	1,100	1,100
Latin America	1,100	1,100	1,100	1,100	1,100	1,100
Asia Pacific	1,100	1,100	1,100	1,100	1,100	1,100
Europe	1,100	1,100	1,100	1,100	1,100	1,100
Africa	1,100	1,100	1,100	1,100	1,100	1,100
Oceania	1,100	1,100	1,100	1,100	1,100	1,100
Other	1,100	1,100	1,100	1,100	1,100	1,100
Subtotal	11,438	11,450	12,500	10,430	41,326	41,326
United States	11,438	11,450	12,500	10,430	41,326	41,326
Canada	1,100	1,100	1,100	1,100	1,100	1,100
Latin America	1,100	1,100	1,100	1,100	1,100	1,100
Asia Pacific	1,100	1,100	1,100	1,100	1,100	1,100
Europe	1,100	1,100	1,100	1,100	1,100	1,100
Africa	1,100	1,100	1,100	1,100	1,100	1,100
Oceania	1,100	1,100	1,100	1,100	1,100	1,100
Other	1,100	1,100	1,100	1,100	1,100	1,100
Subtotal	11,438	11,450	12,500	10,430	41,326	41,326

Canada	74.0	74.87	74.54	61.67
France	73.0	73.00	72.84	61.67
Germany	72.0	72.00	71.84	61.67
Italy	71.0	71.00	70.84	61.67
Japan	70.0	70.00	69.84	61.67
United Kingdom	69.0	69.00	68.84	61.67
United States	68.0	68.00	67.84	61.67
Other	67.0	67.00	66.84	61.67
World	66.0	66.00	65.84	61.67
Europe	65.0	65.00	64.84	61.67
Asia	64.0	64.00	63.84	61.67
Africa	63.0	63.00	62.84	61.67
Americas	62.0	62.00	61.84	61.67
Oceania	61.0	61.00	60.84	61.67
Other	60.0	60.00	59.84	61.67
World	59.0	59.00	58.84	61.67
Europe	58.0	58.00	57.84	61.67
Asia	57.0	57.00	56.84	61.67
Africa	56.0	56.00	55.84	61.67
Americas	55.0	55.00	54.84	61.67
Oceania	54.0	54.00	53.84	61.67
Other	53.0	53.00	52.84	61.67
World	52.0	52.00	51.84	61.67
Europe	51.0	51.00	50.84	61.67
Asia	50.0	50.00	49.84	61.67
Africa	49.0	49.00	48.84	61.67
Americas	48.0	48.00	47.84	61.67
Oceania	47.0	47.00	46.84	61.67
Other	46.0	46.00	45.84	61.67
World	45.0	45.00	44.84	61.67
Europe	44.0	44.00	43.84	61.67
Asia	43.0	43.00	42.84	61.67
Africa	42.0	42.00	41.84	61.67
Americas	41.0	41.00	40.84	61.67
Oceania	40.0	40.00	39.84	61.67
Other	39.0	39.00	38.84	61.67
World	38.0	38.00	37.84	61.67
Europe	37.0	37.00	36.84	61.67
Asia	36.0	36.00	35.84	61.67
Africa	35.0	35.00	34.84	61.67
Americas	34.0	34.00	33.84	61.67
Oceania	33.0	33.00	32.84	61.67
Other	32.0	32.00	31.84	61.67
World	31.0	31.00	30.84	61.67
Europe	30.0	30.00	29.84	61.67
Asia	29.0	29.00	28.84	61.67
Africa	28.0	28.00	27.84	61.67
Americas	27.0	27.00	26.84	61.67
Oceania	26.0	26.00	25.84	61.67
Other	25.0	25.00	24.84	61.67
World	24.0	24.00	23.84	61.67
Europe	23.0	23.00	22.84	61.67
Asia	22.0	22.00	21.84	61.67
Africa	21.0	21.00	20.84	61.67
Americas	20.0	20.00	19.84	61.67
Oceania	19.0	19.00	18.84	61.67
Other	18.0	18.00	17.84	61.67
World	17.0	17.00	16.84	61.67
Europe	16.0	16.00	15.84	61.67
Asia	15.0	15.00	14.84	61.67
Africa	14.0	14.00	13.84	61.67
Americas	13.0	13.00	12.84	61.67
Oceania	12.0	12.00	11.84	61.67
Other	11.0	11.00	10.84	61.67
World	10.0	10.00	9.84	61.67
Europe	9.0	9.00	8.84	61.67
Asia	8.0	8.00	7.84	61.67
Africa	7.0	7.00	6.84	61.67
Americas	6.0	6.00	5.84	61.67
Oceania	5.0	5.00	4.84	61.67
Other	4.0	4.00	3.84	61.67
World	3.0	3.00	2.84	61.67
Europe	2.0	2.00	1.84	61.67
Asia	1.0	1.00	0.84	61.67
Africa	0.0	0.00	-0.84	61.67
Americas	-1.0	-1.00	-1.84	61.67
Oceania	-2.0	-2.00	-2.84	61.67
Other	-3.0	-3.00	-3.84	61.67
World	-4.0	-4.00	-4.84	61.67
Europe	-5.0	-5.00	-5.84	61.67
Asia	-6.0	-6.00	-6.84	61.67

Similar Use Test Means List (12/00P)				
United States	197.2	197.2	197.2	197.2
France	196.8	196.8	196.8	196.8
Germany	196.4	196.4	196.4	196.4
Italy	196.0	196.0	196.0	196.0
Japan	195.6	195.6	195.6	195.6
United Kingdom	195.2	195.2	195.2	195.2
Other	194.8	194.8	194.8	194.8
World	194.4	194.4	194.4	194.4
Europe	194.0	194.0	194.0	194.0
Asia	193.6	193.6	193.6	193.6
Africa	193.2	193.2	193.2	193.2
Americas	192.8	192.8	192.8	192.8
Oceania	192.4	192.4	192.4	192.4
Other	192.0	192.0	192.0	192.0
World	191.6	191.6	191.6	191.6
Europe	191.2	191.2	191.2	191.2
Asia	190.8	190.8	190.8	190.8
Africa	190.4	190.4	190.4	190.4
Americas	190.0	190.0	190.0	190.0
Oceania	189.6	189.6	189.6	189.6
Other	189.2	189.2	189.2	189.2
World	188.8	188.8	188.8	188.8
Europe	188.4	188.4	188.4	188.4
Asia	188.0	188.0	188.0	188.0
Africa	187.6	187.6	187.6	187.6
Americas	187.2	187.2	187.2	187.2
Oceania	186.8	186.8	186.8	186.8
Other	186.4	186.4	186.4	186.4
World	186.0	186.0	186.0	186.0
Europe	185.6	185.6	185.6	185.6
Asia	185.2	185.2	185.2	185.2
Africa	184.8	184.8	184.8	184.8
Americas	184.4	184.4	184.4	184.4
Oceania	184.0	184.0	184.0	184.0
Other	183.6	183.6	183.6	183.6
World	183.2	183.2	183.2	183.2
Europe	182.8	182.8	182.8	182.8
Asia	182.4	182.4	182.4	182.4
Africa	182.0	182.0	182.0	182.0
Americas	181.6	181.6	181.6	181.6
Oceania	181.2	181.2	181.2	181.2
Other	180.8	180.8	180.8	180.8
World	180.4	180.4	180.4	180.4
Europe	180.0	180.0	180.0	180.0
Asia	179.6	179.6	179.6	179.6
Africa	179.2	179.2	179.2	179.2
Americas	178.8	178.8	178.8	178.8
Oceania	178.4	178.4	178.4	178.4
Other	178.0	178.0	178.0	178.0
World	177.6	177.6	177.6	177.6
Europe	177.2	177.2	177.2	177.2
Asia	176.8	176.8	176.8	176.8
Africa	176.4	176.4	176.4	176.4
Americas	176.0	176.0	176.0	176.0
Oceania	175.6	175.6	175.6	175.6
Other	175.2	175.2	175.2	175.2
World	174.8	174.8	174.8	174.8
Europe	174.4	174.4	174.4	174.4
Asia	174.0	174.0	174.0	174.0
Africa	173.6	173.6	173.6	173.6
Americas	173.2	173.2	173.2	173.2
Oceania	172.8	172.8	172.8	172.8
Other	172.4	172.4	172.4	172.4
World	172.0	172.0	172.0	172.0
Europe	171.6	171.6	171.6	171.6
Asia	171.2	171.2	171.2	171.2
Africa	170.8	170.8	170.8	170.8
Americas	170.4	170.4	170.4	170.4
Oceania	170.0	170.0	170.0	170.0
Other	169.6	169.6	169.6	169.6
World	169.2	169.2	169.2	169.2
Europe	168.8	168.8	168.8	168.8
Asia	168.4	168.4	168.4	168.4
Africa	168.0	168.0	168.0	168.0
Americas	167.6	167.6	167.6	167.6
Oceania	167.2	167.2	167.2	167.2
Other	166.8	166.8	166.8	166.8
World	166.4	166.4	166.4	166.4
Europe	166.0	166.0	166.0	166.0
Asia	165.6	165.6	165.6	165.6
Africa	165.2	165.2	165.2	165.2
Americas	164.8	164.8	164.8	164.8
Oceania	164.4	164.4	164.4	164.4
Other	164.0	164.0	164.0	164.0
World	163.6	163.6	163.6	163.6
Europe	163.2	163.2	163.2	163.2
Asia	162.8	162.8	162.8	162.8
Africa	162.4	162.4	162.4	162.4
Americas	162.0	162.0	162.0	162.0
Oceania	161.6	161.6	161.6	161.6
Other	161.2	161.2	161.2	161.2
World	160.8	160.8	160.8	160.8
Europe	160.4	160.4	160.4	160.4
Asia	160.0	160.0	160.0	160.0
Africa	159.6	159.6	159.6	159.6
Americas	159.2	159.2	159.2	159.2
Oceania	158.8	158.8	158.8	158.8
Other	158.4	158.4	158.4	158.4
World	158.0	158.0	158.0	158.0
Europe	157.6	157.6	157.6	157.6
Asia	157.2	157.2	157.2	157.2
Africa	156.8	156.8	156.8	156.8
Americas	156.4	156.4	156.4	156.4
Oceania	156.0	156.0	156.0	156.0
Other	155.6	155.6	155.6	155.6
World	155.2	155.2	155.2	155.2
Europe	154.8	154.8	154.8	154.8
Asia	154.4	154.4	154.4	154.4
Africa	154.0	154.0	154.0	154.0
Americas	153.6	153.6	153.6	153.6
Oceania	153.2	153.2	153.2	153.2
Other	152.8	152.8	152.8	152.8
World	152.4	152.4	152.4	152.4
Europe	152.0	152.0	152.0	152.0
Asia	151.6	151.6	151.6	151.6
Africa	151.2	151.2	151.2	151.2
Americas	150.8	150.8	150.8	150.8
Oceania	150.4	150.4	150.4	150.4
Other	150.0	150.0	150.0	150.0
World	149.6	149.6	149.6	149.6
Europe	149.2	149.2	149.2	149.2
Asia	148.8	148.8	148.8	148.8
Africa	148.4	148.4	148.4	148.4
Americas	148.0	148.0	148.0	148.0
Oceania	147.6	147.6	147.6	147.6
Other	147.2	147.2	147.2	147.2
World	146.8	146.8	146.8	146.8
Europe	146.4	146.4	146.4	146.4
Asia	146.0	146.0	146.0	146.0
Africa	145.6	145.6	145.6	145.6
Americas	145.2	145.2	145.2	145.2
Oceania	144.8	144.8	144.8	144.8
Other	144.4	144.4	144.4	144.4
World	144.0	144.0	144.0	144.0
Europe	143.6	143.6	143.6	143.6
Asia	143.2	143.2	143.2	143.2
Africa	142.8	142.8	142.8	142.8
Americas	142.4	142.4	142.4	142.4
Oceania	142.0	142.0	142.0	142.0
Other	141.6	141.6	141.6	141.6
World	141.2	141.2	141.2	141.2
Europe	140.8	140.8	140.8	140.8
Asia	140.4	140.4	140.4	140.4
Africa	140.0	140.0	140.0	140.0
Americas	139.6	139.6	139.6	139.6
Oceania	139.2	139.2	139.2	139.2
Other	138.8	138.8	138.8	138.8
World	138.4	138.4	138.4	138.4
Europe	138.0	138.0	138.0	138.0
Asia	137.6	137.6	137.6	137.6
Africa	137.2	137.2	137.2	137.2
Americas	136.8	136.8	136.8	136.8
Oceania	136.4	136.4	136.4	136.4
Other	136.0	136.0	136.0	136.0
World	135.6	135.6	135.6	135.6
Europe	135.2	135.2	135.2	135.2
Asia	134.8	134.8	134.8	134.8
Africa	134.4	134.4	134.4	134.4
Americas	134.0	134.0	134.0	134.0
Oceania	133.6	133.6	133.6	133.6
Other	133.2	133.2	133.2	133.2
World	132.8	132.8	132.8	132.8
Europe	132.4	132.4	132.4	132.4
Asia	132.0	132.0	132.0	132.0
Africa	131.6	131.6	131.6	131.6
Americas	131.2	131.2	131.2	131.2
Oceania	130.8	130.8	130.8	130.8
Other	130.			

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● Current Unit Trust prices are available on FT Cityline. Calls charged at 45p per minute peak and 34p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

KEY MARKETS

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LONDON SHARE SERVICE

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LEISURE

Stock	Price	Week %	Last	Dividend	Yield
1.10. Leisure	1.10	0.0	1.10	0.00	0.0
1.11. Leisure	1.11	0.0	1.11	0.00	0.0
1.12. Leisure	1.12	0.0	1.12	0.00	0.0
1.13. Leisure	1.13	0.0	1.13	0.00	0.0
1.14. Leisure	1.14	0.0	1.14	0.00	0.0
1.15. Leisure	1.15	0.0	1.15	0.00	0.0
1.16. Leisure	1.16	0.0	1.16	0.00	0.0
1.17. Leisure	1.17	0.0	1.17	0.00	0.0
1.18. Leisure	1.18	0.0	1.18	0.00	0.0
1.19. Leisure	1.19	0.0	1.19	0.00	0.0
1.20. Leisure	1.20	0.0	1.20	0.00	0.0
1.21. Leisure	1.21	0.0	1.21	0.00	0.0
1.22. Leisure	1.22	0.0	1.22	0.00	0.0
1.23. Leisure	1.23	0.0	1.23	0.00	0.0
1.24. Leisure	1.24	0.0	1.24	0.00	0.0
1.25. Leisure	1.25	0.0	1.25	0.00	0.0
1.26. Leisure	1.26	0.0	1.26	0.00	0.0
1.27. Leisure	1.27	0.0	1.27	0.00	0.0
1.28. Leisure	1.28	0.0	1.28	0.00	0.0
1.29. Leisure	1.29	0.0	1.29	0.00	0.0
1.30. Leisure	1.30	0.0	1.30	0.00	0.0
1.31. Leisure	1.31	0.0	1.31	0.00	0.0
1.32. Leisure	1.32	0.0	1.32	0.00	0.0
1.33. Leisure	1.33	0.0	1.33	0.00	0.0
1.34. Leisure	1.34	0.0	1.34	0.00	0.0
1.35. Leisure	1.35	0.0	1.35	0.00	0.0
1.36. Leisure	1.36	0.0	1.36	0.00	0.0
1.37. Leisure	1.37	0.0	1.37	0.00	0.0
1.38. Leisure	1.38	0.0	1.38	0.00	0.0
1.39. Leisure	1.39	0.0	1.39	0.00	0.0
1.40. Leisure	1.40	0.0	1.40	0.00	0.0
1.41. Leisure	1.41	0.0	1.41	0.00	0.0
1.42. Leisure	1.42	0.0	1.42	0.00	0.0
1.43. Leisure	1.43	0.0	1.43	0.00	0.0
1.44. Leisure	1.44	0.0	1.44	0.00	0.0
1.45. Leisure	1.45	0.0	1.45	0.00	0.0
1.46. Leisure	1.46	0.0	1.46	0.00	0.0
1.47. Leisure	1.47	0.0	1.47	0.00	0.0
1.48. Leisure	1.48	0.0	1.48	0.00	0.0
1.49. Leisure	1.49	0.0	1.49	0.00	0.0
1.50. Leisure	1.50	0.0	1.50	0.00	0.0
1.51. Leisure	1.51	0.0	1.51	0.00	0.0
1.52. Leisure	1.52	0.0	1.52	0.00	0.0
1.53. Leisure	1.53	0.0	1.53	0.00	0.0
1.54. Leisure	1.54	0.0	1.54	0.00	0.0
1.55. Leisure	1.55	0.0	1.55	0.00	0.0
1.56. Leisure	1.56	0.0	1.56	0.00	0.0
1.57. Leisure	1.57	0.0	1.57	0.00	0.0
1.58. Leisure	1.58	0.0	1.58	0.00	0.0
1.59. Leisure	1.59	0.0	1.59	0.00	0.0
1.60. Leisure	1.60	0.0	1.60	0.00	0.0
1.61. Leisure	1.61	0.0	1.61	0.00	0.0
1.62. Leisure	1.62	0.0	1.62	0.00	0.0
1.63. Leisure	1.63	0.0	1.63	0.00	0.0
1.64. Leisure	1.64	0.0	1.64	0.00	0.0
1.65. Leisure	1.65	0.0	1.65	0.00	0.0
1.66. Leisure	1.66	0.0	1.66	0.00	0.0
1.67. Leisure	1.67	0.0	1.67	0.00	0.0
1.68. Leisure	1.68	0.0	1.68	0.00	0.0
1.69. Leisure	1.69	0.0	1.69	0.00	0.0
1.70. Leisure	1.70	0.0	1.70	0.00	0.0
1.71. Leisure	1.71	0.0	1.71	0.00	0.0
1.72. Leisure	1.72	0.0	1.72	0.00	0.0
1.73. Leisure	1.73	0.0	1.73	0.00	0.0
1.74. Leisure	1.74	0.0	1.74	0.00	0.0
1.75. Leisure	1.75	0.0	1.75	0.00	0.0
1.76. Leisure	1.76	0.0	1.76	0.00	0.0
1.77. Leisure	1.77	0.0	1.77	0.00	0.0
1.78. Leisure	1.78	0.0	1.78	0.00	0.0
1.79. Leisure	1.79	0.0	1.79	0.00	0.0
1.80. Leisure	1.80	0.0	1.80	0.00	0.0
1.81. Leisure	1.81	0.0	1.81	0.00	0.0
1.82. Leisure	1.82	0.0	1.82	0.00	0.0
1.83. Leisure	1.83	0.0	1.83	0.00	0.0
1.84. Leisure	1.84	0.0	1.84	0.00	0.0
1.85. Leisure	1.85	0.0	1.85	0.00	0.0
1.86. Leisure	1.86	0.0	1.86	0.00	0.0
1.87. Leisure	1.87	0.0	1.87	0.00	0.0
1.88. Leisure	1.88	0.0	1.88	0.00	0.0
1.89. Leisure	1.89	0.0	1.89	0.00	0.0
1.90. Leisure	1.90	0.0	1.90	0.00	0.0
1.91. Leisure	1.91	0.0	1.91	0.00	0.0
1.92. Leisure	1.92	0.0	1.92	0.00	0.0
1.93. Leisure	1.93	0.0	1.93	0.00	0.0
1.94. Leisure	1.94	0.0	1.94	0.00	0.0
1.95. Leisure	1.95	0.0	1.95	0.00	0.0
1.96. Leisure	1.96	0.0	1.96	0.00	0.0
1.97. Leisure	1.97	0.0	1.97	0.00	0.0
1.98. Leisure	1.98	0.0	1.98	0.00	0.0
1.99. Leisure	1.99	0.0	1.99	0.00	0.0
2.00. Leisure	2.00	0.0	2.00	0.00	0.0

PROPERTY

Stock	Price	Week %	Last	Dividend	Yield
1.10. Property	1.10	0.0	1.10	0.00	0.0
1.11. Property	1.11	0.0	1.11	0.00	0.0
1.12. Property	1.12	0.0	1.12	0.00	0.0
1.13. Property	1.13	0.0	1.13	0.00	0.0
1.14. Property	1.14	0.0	1.14	0.00	0.0
1.15. Property	1.15	0.0	1.15	0.00	0.0
1.16. Property	1.16	0.0	1.16	0.00	0.0
1.17. Property	1.17	0.0	1.17	0.00	0.0
1.18. Property	1.18	0.0	1.18	0.00	0.0
1.19. Property	1.19	0.0	1.19	0.00	0.0
1.20. Property	1.20	0.0	1.20	0.00	0.0
1.21. Property	1.21	0.0	1.21	0.00	0.0
1.22. Property	1.22	0.0	1.22	0.00	0.0
1.23. Property	1.23	0.0	1.23	0.00	0.0
1.24. Property	1.24	0.0	1.24	0.00	0.0
1.25. Property	1.25	0.0	1.25	0.00	0.0
1.26. Property	1.26	0.0	1.26	0.00	0.0
1.27. Property	1.27	0.0	1.27	0.00	0.0
1.28. Property	1.28	0.0	1.28	0.00	0.0
1.29. Property	1.29	0.0	1.29	0.00	0.0
1.30. Property	1.30	0.0	1.30	0.00	0.0
1.31. Property	1.31	0.0	1.31	0.00	0.0
1.32. Property	1.32	0.0	1.32	0.00	0.0
1.33. Property	1.33	0.0	1.33	0.00	0.0
1.34. Property	1.34	0.0	1.34	0.00	0.0
1.35. Property	1.35	0.0	1.35	0.00	0.0
1.36. Property	1.36	0.0	1.36	0.00	0.0
1.37. Property	1.37	0.0	1.37	0.00	0.0
1.38. Property	1.38	0.0	1.38	0.00	0.0
1.39. Property	1.39	0.0	1.39	0.00	0.0
1.40. Property	1.40	0.0	1.40	0.00	0.0
1.41. Property	1.41	0.0	1.41	0.00	0.0
1.42. Property	1.42	0.0	1.42	0.00	0.0
1.43. Property	1.43	0.0	1.43	0.00	0.0
1.44. Property	1.44	0.0	1.44	0.00	0.0
1.45. Property	1.45	0.0	1.45	0.00	0.0
1.46. Property	1.46	0.0	1.46	0.00	0.0
1.47. Property	1.47	0.0	1.47	0.00	0.0
1.48. Property	1.48	0.0	1.48	0.00	0.0
1.49. Property	1.49	0.0	1.49	0.00	0.0
1.50. Property	1.50	0.0	1.50	0.00	0.0
1.51. Property	1.51	0.0	1.51	0.00	0.0
1.52. Property	1.52	0.0	1.52	0.00	0.0
1.53. Property	1.53	0.0	1.53	0.00	0.0
1.54. Property	1.54	0.0	1.54	0.00	0.0
1.55. Property	1.55	0.0	1.55	0.00	0.0
1.56. Property	1.56	0.0	1.56	0.00	0.0
1.57. Property	1.57	0.0	1.57	0.00	0.0
1.58. Property	1.58	0.0	1.58	0.00	0.0
1.59. Property	1.59	0.0	1.59	0.00	0.0
1.60. Property	1.60	0.0	1.60	0.00	0.0
1.61. Property	1.61	0.0	1.61	0.00	0.0
1.62. Property	1.62	0.0	1.62	0.00	0.0
1.63. Property	1.63	0.0	1.63	0.00	0.0
1.64. Property	1.64	0.0	1.64	0.00	0.0
1.65. Property	1.65	0.0	1.65	0.00	0.0
1.66. Property	1.66	0.0	1.66	0.00	0.0
1.67. Property	1.67	0.0	1.67	0.00	0.0
1.68. Property	1.68	0.0	1.68	0.00	0.0
1.69. Property	1.69	0.0	1.69	0.00	0.0
1.70. Property	1.70	0.0	1.70	0.00	0.0
1.71. Property	1.71	0.0	1.71	0.00	0.0
1.72. Property	1.72	0.0	1.72	0.00	0.0
1.73. Property	1.73	0.0	1.73	0.00	0.0
1.74. Property	1.74	0.0	1.74	0.00	0.0
1.75. Property	1.75	0.0	1.75	0.00	0.0
1.76. Property	1.76	0.0	1.76	0.00	0.0
1.77. Property	1.77	0.0	1.77	0.00	0.0
1.78. Property	1.78	0.0	1.78	0.00	0.0
1.79. Property	1.79	0.0	1.79	0.00	0.0
1.80. Property	1.80	0.0	1.80	0.00	0.0
1.81. Property	1.81	0.0	1.81	0.00	0.0
1.82. Property	1.82	0.0	1.82	0.00	0.0
1.83. Property	1.83	0.0	1.83	0.00	0.0
1.84. Property	1.84	0.0	1.84	0.00	0.0
1.85. Property	1.85	0.0	1.85	0.00	0.0
1.86. Property	1.86	0.0	1.86	0.00	0.0
1.87. Property	1.87	0.0	1.87	0.00	0.0
1.88. Property	1.88	0.0	1.88	0.00	0.0
1.89. Property	1.89	0.0	1.89	0.00	0.0
1.90. Property	1.90	0.0	1.90	0.00	0.0
1.91. Property	1.91	0.0	1.91	0.00	0.0
1.92. Property	1.92	0.0	1.92	0.00	0.0
1.93. Property	1.93	0.0	1.93	0.00	0.0
1.94. Property	1.94	0.0	1.94	0.00	0.0
1.95. Property	1.95	0.0	1.95	0.00	0.0
1.96. Property	1.96	0.0	1.96	0.00	0.0
1.97. Property	1.97	0.0	1.97	0.00	0.0
1.98. Property	1.98	0.0	1.98	0.00	0.0
1.99. Property	1.99	0.0	1.99	0.00	0.0
2.00. Property	2.00	0.0	2.00	0.00	0.0

TRANSPORT - Contd

TRANSPORT GROUP					
Market Cap. \$	Stock	Price	Week % Chg	Last	Dividend Payable
13,000	1.10. Seacoast Stevedores	100	5.3	4.7	Oct. Apr.
13,000	1.11. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
51,717 P	1.12. Seacoast Stevedores	51	7.1	11.4	Oct. Apr.
144,000	1.13. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.14. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.15. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.16. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.17. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.18. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.19. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.20. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.21. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
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144,000	1.23. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
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144,000	1.54. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.55. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.56. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.57. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.58. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.59. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.60. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
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144,000	1.91. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.92. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.93. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.94. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.95. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
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144,000	1.98. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	1.99. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.
144,000	2.00. Seacoast Stevedores	21	2.1	1.2	Oct. Apr.

MONDAY PROFILE

Monetarist
hard man
in waitingDavid Marsh on Helmut
Schlesinger, president-elect of
the Bundesbank

Mr Helmut Schlesinger, who becomes president of the German Bundesbank next month, slogs his way every day up 12 flights of stairs to his office in the central bank's Frankfurt headquarters.

From the Bundesbank's wide vista windows surveying a motley collection of football pitches and banking skyscrapers, Mr Schlesinger likes to observe the nesting habits of the local birdlife. It may be only a coincidence but he has noticed that, lately, hawks are roosting in the Bundesbank's 1960s concrete walls.

Mr Schlesinger is an active but ascetic 66-year-old who is taking over - at an age when most men have reached retirement - one of the most powerful and daunting jobs in international economic policy-making. He is stepping into the limelight vacated by Mr Karl Otto Pöhl, holder of the top Bundesbank job since 1980, who in May decided to step down for a mixture of reasons, including unease over the government's economic policies towards east Germany.

Mr Schlesinger's most abiding characteristics are his stamina, his obduracy and his extraordinary strong bonds to the German central banking habit which has been his home since 1952. As reunited Germany tussles with economic turbulence of a kind unseen in two post-war generations, all three traits will be put severely to the test.

The Bundesbank's vice president since 1980, and equipped since 1986 with an honorary professorship, Mr Schlesinger personifies in almost caricatural form the Bundesbank's famed commitment to financial stability. He has been 19 years on the Bundesbank's policy-making central council, and for eight years before that was the bank's chief economist.

In private conversation he is an acute listener and can demonstrate amiability and Bavarian charm. His public image is that of an austere monetarist devotee - a combination of Doctor Strangelove and Doktor Allwissend, the all-knowing Grimm fairy-tale figure.

His espousal of tight money policies places him in the unique position of having been blamed, slightly absurdly, by the Reagan administration for precipitating the stock market crash of 1987, and by the opposition Social Democrats in Bonn for helping bring down the government of Chancellor Helmut Schmidt in 1982.

Mr Hans Matthöfer, the former SPD finance minister,

recalls stimulating exchanges with Mr Schlesinger about bringing down the budget deficit, but calls him the Bundesbank's "real hard man".

Mr Schmidt says: "He has very good manners, but it is very difficult to move him." Clearly ranking with the former chancellor is not only Mr Schlesinger's controversial interest rate role in the early 1980s, but also his pronounced scepticism on Mr Schmidt's goal of European Monetary Union (Emu). "He is a first-class economist, but also a German nationalist," says Mr Schmidt.

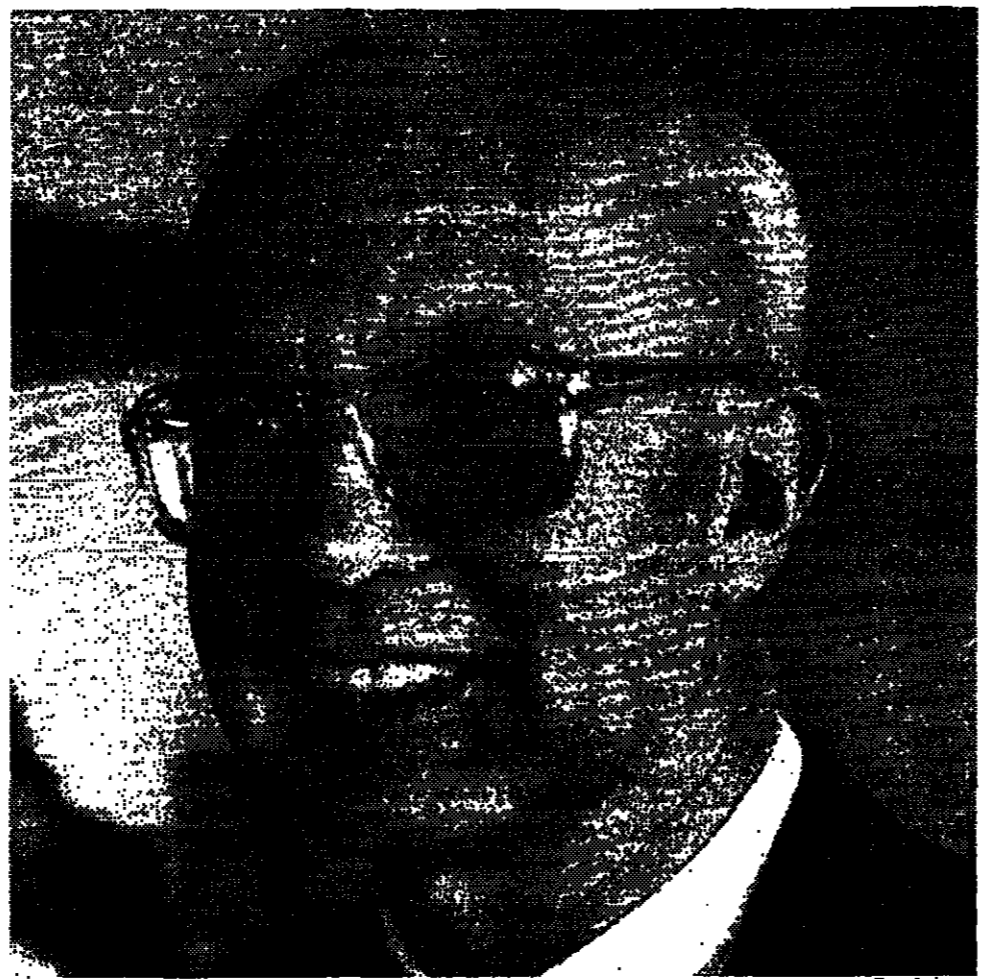
"He will be more stubborn than Pöhl in standing up to the government." Mr Karl Schiller, the former SPD economics minister who formally appointed Mr Schlesinger to the central bank council in 1972 agrees that Mr Schlesinger will be still tougher than Mr Pöhl on Emu. Giving what is gradually becoming a consensus German view spreading across party lines, Mr Schiller says of Mr Schlesinger's coolness towards Emu: "I think that is good, one shouldn't go too quickly."

After the long years working his way up the Bundesbank apparatus, Mr Schlesinger never expected to take the top post. He had been due to retire on reaching the age of 68 in September 1992. Mr Pöhl informed him that he was stepping down early - four and a half years before the expiry of his term - on May 6, just one day before he told President Richard von Weizsäcker and Mr Theo Waigel, the finance minister, and 10 days before he officially informed the whole Bundesbank council and the outside world.

Mr Schlesinger's tenure has now been extended for one more year to give him two years in the top position, the statutory minimum for the president. It is both a benefit and a disadvantage that Mr Schlesinger arrives with his mind made up on key issues. "He doesn't have to do anything to fit into a fashion," says one Bundesbanker who knows him well.

On the other hand, the challenges ahead, ranging from the financing of unification to the Bmu negotiations and the still-unresolved dispute over limiting down the Bundesbank's council, will almost certainly make the tenure unsatisfactorily short.

Like Mr Pöhl when he took over the presidency in 1980, Mr Schlesinger arrives with inflation on the rise, the budget in disarray and the current



Tony Anderson

Schlesinger: stamina, obduracy and strong bank ties

account in deficit. Overall compared with 1980, the problems are much greater, and Mr Schlesinger will have considerably less time to try to sort them out.

In their personalities, the two men are near-opposites. During their 11½ years in tandem, Mr Pöhl and Mr Schlesinger surmounted initial differences and built up a good working relationship. But it was founded on mutual understanding of each other's shortcomings, as well as on respect. Mr Schlesinger showed impressive loyalty to a man five years his junior, and never issued any direct challenge to Mr Pöhl's authority. But he showed every sign of enjoying

Mr Pöhl's hedonism (he is reputed to know the difference between 200 sorts of grapes) as well-known as Mr Schlesinger's love of mountaineering. Within the Bundesbank, his attention to detail is famous. An exacting task-master who has ruled against the transition to word-processors and often writes out long drafts by hand, he frequently puts in a 12-hour day. If subordinates fail to reach his high standards, he can show impatience or even anger.

One long-standing colleague says that Mr Schlesinger has the ability to do every job in the economic department. Emphasising how this helps rather than impedes Mr Schlesinger's capacity to see the big picture, the Bundesbanker adds: "He can see both the wood and the trees."

Another Bundesbank insider puts it less charitably: "Schlesinger checks everything. Pöhl will criticise you if things go wrong but he gives his colleagues free rein."

Finding the right relationship with a particular set of colleagues - the other 17 members of the Bundesbank council - will be Mr Schlesinger's most delicate task. The others, composed of fellow members of the Frankfurt-based directorate and the presidents of the *Land* (state) central banks - make interest rate decisions by majority vote.

Mr Schlesinger has just one vote, like everyone else. The diplomatic Mr Pöhl proved masterly adept at steering the disparate and sometimes highly egotistical council. The personal view of Mr Schlesinger is that he will be more heavy-handed. One *Land* central bank president, although an admirer of Mr Schlesinger's abilities, says: "We will no longer have a president who smooths out disagreements."

According to one associate, Mr Schlesinger fully realises that, in his new job, he will have to be more conciliatory in

public than during his years as vice-president. Already there is evidence that, in a new division of roles, he will delegate the hardest-line statements (for instance on Emu) to his new deputy, Mr Hans Tietmeyer.

Ultimately, however, Mr Schlesinger knows that, if he is to protect the reputation of the Bundesbank and the D-Mark - as well as his own - during the next two years, he will have little room for compromise. Germany is one of the few countries where unpopular monetary decisions can preserve a central bank president's place in history. Already, there are signs of mounting pressures for an increase in the Bundesbank's 6.5 per cent discount rate. At the last council meeting on July 11, on the express recommendation of Mr Pöhl, the Bundesbank decided to keep interest rates unchanged. It would not be a complete surprise if, at the next council meeting on August 15, the Schlesinger era were to start with a tightening of interest rates.

Getting serious
about inflationMICHAEL PROWSE
on America

Might Mr Alan Greenspan be the first Federal Reserve chairman to restore price stability since the 1930s? The idea may appear preposterous. Inflation psychology is still deeply entrenched in the US. With the freakish exception of 1988, when oil prices halved, consumer prices have risen by more than 3 per cent every year since 1987. In 25 years, the dollar has lost more than three quarters of its internal purchasing power. Most forecasts expect inflation to remain entrenched at 4.5 per cent a year.

The pessimists have good grounds for expecting little progress. They point out that inflation spikes of 10 per cent or more in the 1970s and early 1980s unsettled the nation, giving the Fed an implicit mandate for draconian monetary policies. In 1981 Mr Paul Volcker, then Fed chairman, tightened policy so aggressively that prime lending rates soared to 21.5 per cent. But inflation of 4.5 per cent, runs the argument, while quite unacceptable in Frankfurt, simply does not excite strong feelings in America. There is no support for the kind of painful monetary squeeze needed to get inflation permanently lower.

Sceptics will add that the Bush administration shows absolutely no interest in further reductions in inflation. Indeed, almost every time Mr Nicholas Brady, the Treasury secretary, opens his mouth it is to call for lower interest rates. In Japan and Europe, most conservative politicians reacted to the inflationary 1970s by becoming stern advocates of price stability. Finance ministers may not always have adopted the right policies but their rhetoric, at least, has been consistently anti-inflationary. The US political climate is quite different: most Republicans still believe there is a trade-off between inflation and growth, even in the medium term, and most plump for more growth.

Mr Greenspan, being a shrewd public servant, has not banged the table and demanded that inflation reduc-

tion become a higher priority. He has, instead, worked quietly towards this end. His first term as Fed chairman has seen a striking reduction in monetary growth: M2, the preferred measure of broad money, has grown at about 4.5 per cent a year, roughly half the rate of expansion under Mr Volcker. Whether the squeeze would have tipped the economy into recession without the shock to confidence following Iraq's invasion of Kuwait is uncertain, but Mr Greenspan was certainly willing to risk much lower growth. After the recession began, the Fed's interest rate cuts did no more than restore monetary growth of about 4 per cent.

Inflation did not respond quickly. Indeed, the energy price spike last year caused a temporary surge in inflation from about 4.5 per cent to just over 6 per cent. Then a bunching of price increases, including higher excise taxes and postal rates, kept the headline rate artificially high at the beginning of this year. But, as Mr Greenspan noted in last week's Humphrey-Hawkins testimony, the inflation outlook is now improving rapidly. Consumer prices rose at an annual rate of only 2.7 per cent in the first half of this year.

The Fed is now forecasting inflation of only about 3.5 per cent both this year and next. This apparent stability masks steady progress towards lower inflation because the retreat of oil prices will exaggerate the decline in inflation this year.

The brightening inflation outlook should not come as a surprise - even to those who

dismiss the lagged effects of slower monetary growth. The dollar has risen sharply and looks set to appreciate further, especially against European currencies. Total labour costs are rising at just over 4 per cent a year, a full percentage point lower than before the recession began last July. Productivity gains as the economic recovery matures should sharply curb industrial cost inflation over the next 18 months.

Inflation of 3.5 per cent should be achieved without too much trouble. The big question is whether Mr Greenspan can make further progress. The Fed's decision not to reduce its 2.5-6.5 per cent target range for M2 next year will be regarded by some as a sign that it lacks resolve. But it remains fully consistent with further downward pressure on inflation. Given sustainable real growth of perhaps 2.5 per cent, the mid-point of the range implies inflation of only 2 per cent. The Humphrey-Hawkins statement, moreover, contained the following declaration of intent:

"By reducing and ultimately eliminating the distortion to resource allocation stemming from ongoing, generalised price increases, a monetary policy aimed at achieving price stability over time will enhance the economy's potential to grow and thereby raise living standards."

My guess is that Mr Greenspan will push much harder for a sustained reduction in inflation than most pundits suspect. Having been re-elected by the White House for a second four-year term as Fed chairman, he is now less susceptible to political pressure. With the recession apparently over, he can fret less about stabilising the real economy. He thus has every incentive to seek a place in the history books by focusing on price stability. The Bush administration will continue to have shorter-term horizons, but don't assume that the Fed will yield every time it comes under pressure. We may be on the brink of the non-inflationary 1990s.

APPOINTMENTS

Sealink
finance
director

Mr Bob Holmes (pictured) has been appointed finance director, SEALINK STENA LINE, Ashford. He was business controller, travel service.

Mr Richard Brook has been appointed a director of BARRING INTERNATIONAL INVESTMENT.

Lord Joseph has been appointed a part-time non-executive director of METROPAUL DEVELOPMENTS, Darwen, Lancashire, from August 1.

Mr David Brooks, a director of J.O. Hambro and Co, and chief executive of J.O. Hambro and Partners, has been appointed a director of GASTMORE AMERICAN SECURITIES.

Mr Chris Coffin has been appointed new business director with STRACHAN AND HENSHAW, a Weir Group company.

The new financial services director-designate of NAAFI (Navy, Army, Air Force Institutes) is Mr John Lanning. He was marketing director at Hill Samuel Investment Services.

Mr Terry Rochester is to be promoted on July 29 to chief highway engineer in the DEPARTMENT OF TRANSPORT, succeeding Mr Jack Parker who is retiring. Mr Rochester is director, West Midlands construction programme division.

Dr C.F.R. Ogbourne has been appointed director, information services, at C.A.S. INTERNATIONAL.

insurance activities, has been appointed chief executive. He succeeds Mr John East, who becomes executive deputy chairman.

NMB POSTBANK has appointed Mr C. Vincent Bell (pictured) as senior general manager for the UK and Ireland. He will be based in London. Mr Bell is general manager for the UK of Algemeine Bank Nederland and was chief executive of ABN Ireland 1976-88. NMB Postbank is a subsidiary of Internationale Nederlanden, which has a 50 per cent holding in Hibernian Life.

Mr Sidney G. Coxwell has been appointed managing director of UDO HOLDINGS from August 1. Mr Michael J. Wright continues as chairman and will devote more time to strategic group issues.

BUNZL has appointed Mr Paul Twigg as managing director of its worldwide plastics operations. He will return from New Jersey where he is president of Bunzl Plastics Inc, managing the North American and Brazilian operations.

MORI board post
Mr Anna Tressler has been elected to the board of MARKET & OPINION RESEARCH INTERNATIONAL (MORI). She is managing director of Field & Tab, MORI's fieldwork subsidiary. Ms Christine Roberts becomes an associate director. She joins from Jeremy Coyle Associates.

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Velvet revolution is fraying

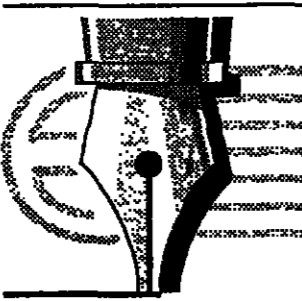
Eighteen months ago the Czechoslovak Communist party was swept from power in the first free elections since 1945. Now the party and its many secret sympathisers still in positions of power and influence are looking with new hope to the elections due next summer. Although President Vaclav Havel's lofty ideals are much admired, the love and peace which radiate from Prague castle, his official residence, do not seem to have permeated the politics and daily life of the country. Almost 50 years of totalitarian rule have exerted a more pervasive psychological effect than outside observers imagined: Czechs and Slovaks appear to have forgotten not only about the market economy, but about the art of democratic politics as well.

Civic Forum, which emerged as the only organised political force of the "Velvet Revolution" of 1989, is divided and a plethora of small, poorly disciplined parties is making it difficult for the government to carry out its legislative programme.

President Havel and those around him seem mainly concerned with the arts and foreign policy, leaving economics to Mr Vaclav Klaus, the federal minister of finance and head of the Liberal Democrats who split away from Havel's Civic Forum. Klaus is eliminating Havel's men from government and the Civil Service, and has become the dominant figure whom few dare to criticise publicly.

Kinder observers see Mr Klaus as a well-intentioned dogmatist who replaced the idols of Marx and Lenin with free-marketisers such as Fried-

LETTER FROM



CZECHOSLOVAKIA

rich von Hayek and Milton Friedman. Others maintain that his policy is intended to sell out Czech industry to foreigners with the money and know-how to modernise and integrate Czechoslovakia into the world economy.

The main elements of Mr Klaus's policy - liberalisation of prices, internal convertibility of the Czech currency, a tight fiscal policy coupled with continued wage control, and privatisation of trade and industry - sound good to western economists.

Domestic observers are more critical. They argue that announcing price increases months ahead of their introduction on January 1 led to the disappearance of certain basic consumer goods, such as potatoes, from the market. As every grocer, could foresee, consumers rushed to buy at the prevailing low price and producers withheld supplies while waiting for the higher price.

A much more serious mistake was to remove price controls without breaking up the food distribution and food pro-

cessing cartels. These now make enormous profits by keeping procurement prices low and retail prices high. The state budget benefits (from higher taxes on their profits) but, as wage control keeps incomes low, consumer purchases have been drastically reduced. The result is that agricultural co-operatives cannot sell their products - milk and beef in particular. Farmers are threatening to blockade roads to Prague.

Critics also attack the introduction of internal convertibility for the Czech crown. All foreign currency proceeds have to be offered to the State Bank while enterprises can deal with foreign suppliers of goods and services, and obtain foreign currency from the State Bank to settle accounts. The policy is admirable. The error was to devalue the crown to the prevailing black market level.

The outward result of this radical devaluation to about 50 crowns to the pound sterling is a flood of Austrian and German day trippers who can feast and drink at about a quarter of the price they would have to pay at home. The less-obvious effect is that the Germans are buying up houses and other property through local nominees at substantially less than a fair market price.

The undervaluation of the crown also has a negative effect on Czech industry by creating a barrier to imports and an export subsidy for its low-quality products. Not only western consumer products are barred but also machinery and equipment needed to increase industrial efficiency.

Privatisation of retail trade and small businesses is under way but interest rates of more than 20 per cent are having a

paralysing effect on the large enterprises which, in preparation for privatisation, were transformed into independent state enterprises. The state transferred the fixed assets but provided no working capital. This, together with the loss of Comecon markets, sharply reduced output and made it impossible to adjust quickly to western markets.

The voucher method of privatisation, which enables each resident citizen over 18 to obtain 85,000 crowns worth of industrial shares by paying 1,000 crowns for a voucher, is welcomed by present managers, but is viewed sceptically by independent observers. Most managers were appointed and promoted by the communist regime because of their obedience to party directives and are unlikely to adapt to a market economy easily. They welcome the voucher system, expecting that the small shareholders will be unable to exercise any effective control.

In these circumstances, only foreign investment could achieve an upgrading of management and the modernisation or conversion of production plants - which is indispensable if the economy is to switch to western markets.

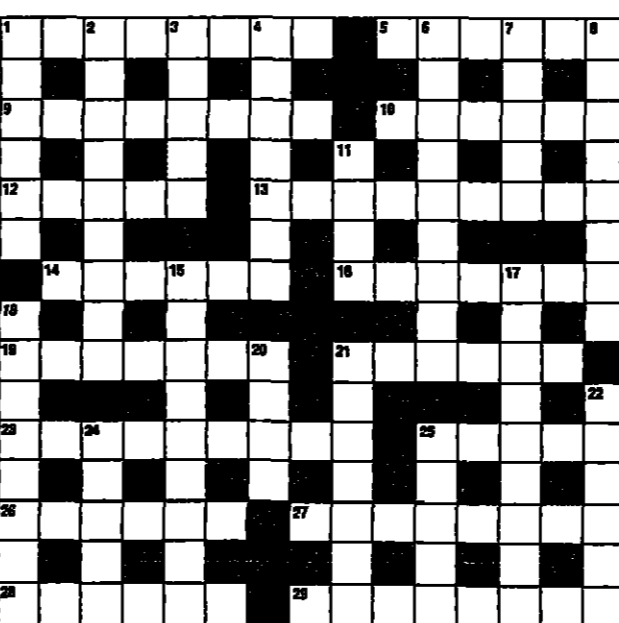
But massive foreign investment can hardly be expected unless political stability is achieved and macroeconomic management becomes less dogmatic and less focused on next year's elections.

A H Hermann

The author is D J Freeman senior research fellow in international trade law at Queen Mary and Westfield College, University of London.

CROSSWORD

No.7,600 Set by PROTEUS



- ACROSS
- Settler needing to stop its spread (6)
 - Yarn of the seashore (6)
 - Girl showing discretion (8)
 - Soldier in Spanish city or several in ancient Rome (6)
 - Tantalise by humbling a set point (6)
 - Unwise to give child coarse book (6)
 - Where saint got out gift (8)
 - Win seat back without flowers (7)
 - Venetian moneylender chary with rugby player (7)
 - Has visions about water-containers (6)
 - Sketch at bottom of page of dog with disreputable woman (4-5)
 - Flower of mixed colour: it is said (5)
 - Scamp being given some extra scales (6)
 - Drinks giving urge to take pleasure-flights (3-5)
 - Savage-sounding yarn (6)
 - They bear responsibility for deposit in river (8)
- DOWN
- Cloak for a writer (6)
 - Expressing praise for archbishop - a right winger (9)
 - Relative finding quarter in French town (5)
 - Plan for small body of troops (7)
 - Novel habitat for wild animals (3-5)
 - Quicksilver island to a Frenchman (5)
 - Old African Christian actor is leading tenor (8)
 - Pick out precise place (4)
 - Happened to capture town (4-5)
 - Slail when it's time to get up (9)
 - Secret imparted by oriental drunkard to literary school-boy (8)
 - Eager to express sorrow (4)
 - Ship sometimes having cargo of sugar (7)
 - Delivers essential component of poetry perhaps (6)
 - Point in dispute with children (5)
 - Birds with trilly collars (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday August 3.